CLARICA™

Clarity Through Dialogue

Annual Report 2000

This Annual Report may contain statements about expected future events, and financial results that are forward-looking in nature, and, as a result, are subject to certain risks and uncertainties. Clarica's actual results may differ materially due to a variety of factors, including legislative or regulatory developments, competition, technological change, global capital markets, interest rates and general economic conditions in North America or internationally. These and other factors should be considered carefully and participants should not place undue reliance on Clarica's forward-looking statements as set forth elsewhere in this Annual Report. The discussion of the financial conditions and results of operations of Clarica contained in this Annual Report should be read in conjunction with the consolidated financial statements and notes included elsewhere in this Annual Report.

A Clear Commitment

Relationships begin with communication. By listening to and understanding one another, we build a shared commitment.

At Clarica, we're in the business of helping each customer create the best possible financial future. By working with customers to understand their financial needs, we begin a dialogue. That dialogue – and our commitment – is permanent. As needs change, we're there to help.

Our sales force and employees have been delivering on this commitment for more than 130 years. Today, we are the choice of more than three million customers in North America. We believe our commitment to customers is the primary way we can create value for our shareholders.

Clarica offers a range of investment and insurance products, from the basic building blocks of life insurance to innovative investment solutions. But Clarica is more than products. We make a promise – to listen – to understand – to work with customers to achieve clarity and help reduce the complexity of financial choices. The outcome will be confident, informed decisions. It's what we mean when we say **'clarity through dialogue'**.

Whether you are a shareholder, a customer, a community partner, or a member of the Clarica team, in one way or another you have chosen to invest in Clarica. Our promise: we will continue to invest in our relationship with you.

Clarica at a Glance

	Our Products and Services	Our Distribution Network	2000 Highlights
Clarica in Canada Retail Insurance	• Universal, Permanent & Term Life Insurance • Critical Illness Insurance • Personal Health Insurance • Long-Term Care Insurance • Financial planning services	• Exclusive sales force of over 3,100 agents, managers and specialists • 1.5 million customers served from 90 offices across Canada	• Increased the sales force by 109 • Improved Universal Life by adding critical illness coverage, more investment options and asset allocation • Redesigned Personal Health Insurance and made it available through the Internet
Wealth Management	*Retail Wealth Accumulation* • Mutual Funds • Index Funds • Segregated Funds • Annuities • Guaranteed Investment Certificates • Registered Retirement Income Funds • Registered Education Savings Plans	• Exclusive sales force	• Introduced third party funds • Launched index funds through agents and through the Internet • Introduced Ratecheck GIC • Created marketing alliance with TD Waterhouse, allowing agents to refer clients for stock and bond transactions • Achieved excellent sales growth

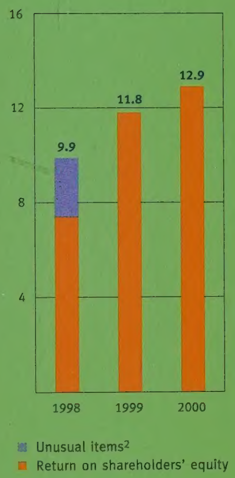
	Pension & Group Savings
	• Defined Contribution products including:
	  • Registered Pension Plans
	  • Registered Retirement Savings Plans
	  • Employer and employee share purchase plans
	  • After-tax savings plans
	  • Post-retirement products
	• Money Management (Investment Only) services
		• Account executives
		• Exclusive sales force
		• Brokers
		• Benefit consultants
			• Agreed to acquire Royal Trust's group retirement services business
			• Introduced industry-leading client statements

Group Insurance	• Life insurance • Accidental Death and Dismemberment Insurance • Health insurance including drug coverage • Dental insurance • Out-of-Country Emergency Insurance with travel assistance • Short- and Long-Term Disability insurance • Creditor insurance • Disability management services	• Group sales representatives • Exclusive sales force • Brokers • Benefit consultants	• Increased net income each quarter • Reduced expenses
Clarica in the U.S. Insurance & Savings	• Universal, Permanent & Term Life Insurance • Annuities • Financial planning	• 1,300 independent agents and 300 staff serve 225,000 individual customers across the United States	• Developed new strategy to offer a broader array of financial service products through marketing companies • Continued growth trend in sales of bank-owned life insurance products • Introduced advanced customer service technology
Reinsurance	• Customized reinsurance solutions	• Business-to-business support of life reinsurers, special risk and financial reinsurance brokers in North America and Europe	• Acquired Sun Life's life retrocession business and opened a second reinsurance office in Toronto • Established a reinsurance subsidiary in Ireland

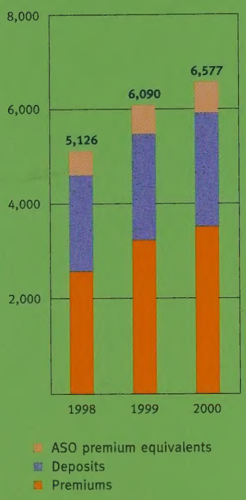
Performance Overview

Adjusted Shareholders' Net Income & Basic Earnings per Share[1]
(Cdn$, in millions)

Adjusted Return on Shareholders' Equity[1]
(in percentages)



Premiums, Deposits & Equivalents
(Cdn$, in millions)



Leading Canadian Business with Exclusive Sales Force

We are a leading provider of insurance and investment products in the Canadian market. Through our exclusive sales force of over 3,100 agents, managers and specialists, Canadian retail insurance premiums increased to $1.2 billion, placing us second in the industry. Company wide, we achieved growth of 8% in premiums, deposits and equivalents.

Target: 10% annual growth in premiums, deposits and equivalents

Attractive Growth Strategies

Our strong earnings momentum continued in 2000 with shareholders' net income increasing 22% to $333 million. This exceptional growth rate includes the acquisition of the life retrocession and financial reinsurance business of Sun Life Financial Services of Canada Inc. (Sun Life). Growth strategies for each line of business and increased emphasis on maximizing our e-Business initiatives will be key drivers for future growth.

Target: 10–15% annual growth in EPS

Track Record of Profitability

In 2000 we achieved a return on equity (ROE) of 12.9%, up significantly since our demutualization in 1999. Our growth strategies, innovative product designs and increased capital efficiency will increase our ROE in future years.

Target: 14% ROE in 2003

Proven Acquisition & Integration Capabilities

We continue to actively seek opportunities, through acquisitions and alliances, to achieve earnings growth and increased market share. During 2000, we successfully completed the acquisition and integration of the life retrocession and financial reinsurance business of Sun Life. We also entered into an agreement to acquire the Canadian group retirement services business of the Royal Trust Company and Royal Trust Corporation of Canada, making Clarica one of the leading pension providers in Canada.

1 1999 and 1998 results are pro forma, reflecting the shareholder basis adopted upon demutualization July 21, 1999.

2 Unusual items include shareholder integration costs of $100 million (after tax) from the MetCan acquisition, and a gain of $42 million (after tax) from the reduction of our investment in Perigee Inc.

David A. Ganong
Chairman of the Board

Robert M. Astley
President and Chief Executive Officer

A Clear Strategy

Bob Astley, President and Chief Executive Officer

In the spirit of our brand, I often engage in dialogue with you – our shareholders, customers, community partners and members. You have asked me questions about our business and our future, and about Clarica's commitment to you. While I am not able to speak personally with each of the 400,000 people who receive this report, I'd like to share with you some of the questions I am asked most often. I hope that my answers, when taken with the full financial information contained in this report, will help you gain a clear picture of Clarica.

How is Clarica performing?

Clarica had an outstanding year in 2000. Here are a few highlights:

- Earnings per share were $2.48, a 22% increase over 1999;
- Return on equity was 12.9%, up from 11.8% in 1999;
- Net income attributable to common shareholders was $333 million, $59 million more than a year ago.

By all measures, Clarica is a bigger, stronger and more effective organization for our investors and other stakeholders than at this time last year. In fact, our strong financial performance since our IPO coupled with a promising outlook on future growth prompted us to increase our dividend on common shares by 27%.

The distinctive Clarica name and brand – clarity through dialogue – continued its remarkable progress in 2000. The impact of the bold and fresh new image our company projects has gone beyond our most optimistic expectations. Customers have endorsed the promise of clarity that comes from building relationships based on listening and understanding. I know the members of Clarica have been energized and their commitment remains intense. As well, our investors and other stakeholders have responded in a very positive manner.

Our exclusive sales force, Clarica's chief contact point with Canadians, can now bring a more complete array of solutions and technology tools to make the brand promise a reality. More recruits came aboard as the year progressed and the sales force grew by a net of 109 men and women, closing the year at 3,109. Our customer retention rate surpasses the industry average.

We plan to sustain the strong results of 2000. We are leveraging our brand and acting on our other growth strategies. As a result, we have set new growth targets to continue the momentum:

- Earnings per share to grow 10–15% annually;
- Return on equity to reach 14% in 2003;
- Premiums, deposits and equivalents to grow at least 10% annually.

Clarica is in a number of mature businesses. How can you deliver 10% top line growth?

For Clarica, top line growth includes premiums, deposits and premium equivalents. Some of our businesses are mature and growth in 2000 was 8%. We have put plans in place to grow across the board in all of our lines of business, including a number of high growth markets where double-digit growth is expected. So, yes, I think 10% top line growth is the right target.

Of particular focus is our retail wealth accumulation business in Canada. In addition to first

time customers, our own retail client base is two million strong. Only about 14% of these customers have both insurance and wealth accumulation products, so all in all the potential is huge. In 2000, we provided more choice and risk management tools to our customers. We added third party funds. Our agents sell index funds and customers have the added option of purchasing these funds online. There are more fund managers available, too. We've worked hard on expanding the size and the effectiveness of our sales force to reach more customers. Technology innovations offer more by way of self-service and online buying choices. We are using feedback and customer knowledge to bring out new solutions and services to meet the fast changing needs of our customers. This will also help us make great strides in 2001.

Another area of focus is the pension and group savings business. We increased our business by nearly 50% when we concluded the purchase of the defined contribution pension business of Royal Trust early in 2001. We are now one of the leading administrators of the pension and group savings business in Canada, administering the defined contribution pension plans of many of the country's largest companies.

The third growth area is life retrocession. This is an area of growing importance within Clarica. We already have a 20% market share in North American individual life retrocession.

We have a proven record in acquisitions. Along with systems and business processes, our practical, experience-based ability to integrate work forces and cultures, the human side of the equation, means we derive full value and become a stronger organization going forward. Our acquisitions of the Canadian business of Prudential of England and MetLife Canada and the retrocession business of Sun Life were all accomplished on or ahead of schedule and within budget. Our newest acquisition of Royal Trust's defined contribution pension business is proceeding well. This type of experience is a great advantage as we pursue other acquisition possibilities.

We have new growth plans for niche U.S. markets. We have re-examined our approaches and made changes in operations. New marketing strategies are in place for 2001 and we are confident about the steps we're taking to expand Clarica's presence and financial performance in the U.S.

Taken all together, I think our growth plans are aggressive but definitely attainable.

You're more concentrated in Canada than your peer companies. Is the Canadian focus too narrow?

We are a North American operation with a solid presence in the United States, but our main focus is in Canada, where we enjoy a very strong market position. We continue to see and exploit opportunities for profitable growth. We've clearly taken advantage of many growth opportunities because we have the expertise and capabilities. Our large customer base provides a solid foundation. We have forged new alliances, such as those with:

- Investors Group (IG), where IG consultants can refer their customers to Clarica's Long Term Care specialists;
- TD Waterhouse, where our agents can refer Clarica clients who wish to buy and sell stocks and bonds;
- LifeServ, where our marketing partnership allows our agents to offer CD-ROMs that advise people on all aspects of particular life events, such as marriage or the birth of a child – times when people also re-examine their financial futures.

We have made a conscious choice to be disciplined with our resources and capabilities and concentrate in Canada and the U.S. We believe that we can enhance shareholder value that way.

Why are you still using the high cost model of a personal and exclusive sales force in Canada? Most competitors have gone to other channels.

Our sales force goes back over a hundred years, but in every year of that time it has evolved in step with the changing needs of the customers it exists to serve. It is an organization that is completely modern and totally projects our brand. We talk about our sales force with pride, but it's a pride based on solid evidence. Research and our results show that customers value and are willing to pay for the advice and service our agents provide. Our own studies show that the net cost of maintaining our sales force compares well with other models and is very competitive. Our agents are well supplemented by technology. We give them the tools they need to manage their relationships with customers. The total package keeps our agents operating at peak efficiency and effectiveness.

Will technology eventually replace your sales force business model?

No, that is too binary a view of what agents and technology mean to customers. Our e-Business strategy is an important one. Our customers value technology that helps make information gathering and administrative transactions easier, for example. Above all, consumers have shown they value dialogue, trust and understanding – key attributes of their relationships with agents. The agent is the relationship manager, supplemented and supported by technical specialists, alliance partners, our Customer Service Centre, as well as Internet-based and other technologies. Technology does not compete with the agent; it's all about an integrated approach that will strengthen and enhance the relationship between agents and customers.

Your new name and brand. It's been more than a year now. Are you still confident about the choice of 'Clarica'?

More than ever. A new name starts with zero recognition. No marketing organization would ever take such a step unless it believed it was the right thing to do. We acted from the deeply felt belief that Clarica and 'clarity through dialogue' really stand for who and what we are. Relationships built on communication, on clarity, and trust; this is the value proposition we bring every day to the marketplace. Research shows that consumers respond to our brand. Starting from a blank slate a year-and-a-half ago, we've climbed to 60% awareness among Canadian consumers. That's well ahead of where we expected we'd be at the end of 2000, so we're delighted. Our advertising approach is fresh and attracts people to us. Our job is to keep up the momentum with more ads and communication in 2001.

Not only is brand the way we express ourselves in the marketplace, it is a creator of value and a driver of business. We will live the brand in all of our relationships with customers at every level of the company. Throughout 2001 and beyond we will work to ensure that we deliver on the promise we are making to our customers through the brand message. Research will show us what we already do well and identify gaps. Then we will close those gaps.

The financial services legislation, which affords you widely-held status and protection from takeover, will change in 2002. Consolidation in the insurance industry is widely expected, with Clarica cited by some as an attractive takeover target. Where does Clarica stand on these issues?

As an active participant in the legislative process, we welcome the clarity the new financial services legislation (formerly known as Bill C-38) will bring to the entire industry. Operating in an environment where the market, not legislation, determines such issues as ownership is the price of admission for public companies. It's healthy for competition and better for consumers.

Clarica is prepared to thrive in such an environment. We have a clear, focused, distinctive strategy; we strive to meet shareholder value expectations; the risk in our operations is relatively low; we have tremendous capabilities and a large customer base. We have the growth prospects and a unique brand to attract and retain customers. These assets mean we can compete in the consolidating environment. We are confident we can manage Clarica to best advantage for shareholders, and earn the right to do so into the future.

We know we're attractive to potential acquirers. In fact, if no one wanted to buy the company, it would mean we were off the mark in what we were doing. We will continue to take all necessary steps to enhance value for our shareholders and meet our commitments. Of course, a good share price, an effective organization, and a distinctive strategy are the best ways to influence our future; those are in place at Clarica.

What do you see for Clarica in the future?

I see Clarica as a thriving, 21^{st} century insurance-based organization that offers a distinct value proposition to the markets it serves. I want Clarica to continue to grow, increase our leading presence across Canada, and deepen our market strengths in the U.S. Clarica will be known for its energy and vitality, and looked to for its innovation, ability to serve customers, and unique brand. I believe we have the right people, technology, knowledge and capabilities to succeed. We will realize our vision of being the clear first choice of customers, shareholders, members, and communities.

In closing

Rapid change will dominate business for a long time to come, but here are what I see as the constants. Clarica has commitments that won't change. We are committed to shareholder value. We are committed to serving customers for the long term. We are committed to the members of Clarica who have chosen to make their livelihood with us. We are committed to the communities where we are a deep part of the fabric. Clarica can meet all of these commitments and succeed. Indeed, it is through meeting all of these commitments that success will come.

Thank you for the confidence you continue to show in Clarica.

Robert M. Astley
President and Chief Executive Officer

Continuing the Dialogue

Investing in Service

"I need top-notch service. What is Clarica doing to be the best provider?"

Len Quinn
Clarica Shareholder
and Policyholder

"One way we do this is to give you many service options. If you're looking for financial advice and solutions, your agent will help. If you want direct access to your investment information, you can use Customer Access through Clarica's Web site. If you have questions that call for immediate answers, you can contact our Customer Service Centre. We know we have to earn your trust and confidence every day. Our sales force and Customer Service team will continue to work together to understand your changing needs, and build solutions that work for you."

Wayne Sigurdson
Vice-President
Customer Service,
Clarica

Sharing in the Future

"Why should I join the Clarica share ownership program?"

Keturah Leonforde
Clarica Employee

"The share ownership program means you can participate financially in the future growth and success of the company. As Clarica succeeds, so do you. The share ownership program is a way to align your interests with the interests of shareholders. As an employee and owner, you can fully appreciate – and influence – Clarica's bottom line. Close to 70 per cent of employees and more than half of our sales force already participate in our share ownership programs – terrific participation rates for programs just launched in mid 2000 and early 2001."

Doug Manson
Compensation Architect, Clarica

Governing Interests

"I invested in Clarica because insurance is a stable and solid industry. With all the changes that are happening, does the Board represent the interests of all of its shareholders?"

Peter Tingling
Clarica Shareholder

"As a shareholder myself, I think your question is the first one any shareholder might ask. I believe Clarica's shareholders have a cohesive and highly participative Board team committed to protecting and enhancing shareholders' interests, as well as the interests of policyholders and other key stakeholders. Your directors are vigilant in carrying out their oversight responsibilities and bring to Board deliberations a collective expertise that helps ensure the success of the business. I have great confidence in the Clarica Board and its ability to achieve the best possible results for the company's owners in these times of challenge and change."

Krystyna Hoeg
Clarica Board member and Chairman of the Audit Committee; President and CEO, Corby Distilleries Limited

Keeping Promises

"You're a public company now. Do you still have the same commitment to me now that I'm a policyholder but no longer an owner?"

Richard Bennett
Clarica Policyholder

"Absolutely. First and foremost, the company is in business to serve customers. Demutualization was a way to clarify your ownership rights in the company. Whether you kept those ownership rights as a shareholder or became exclusively a policyholder, our relationship with you as a customer remains the same. In short, you are my customer and I am your agent. My customers are my first priority, and serving your financial needs is the most important part of my business."

John Beynon
Financial Planner,
Clarica

Leading with Technology

"I want to deal with Clarica online as well as face to face. How is Clarica using the Internet to help customers like me?"

Shannon Dal Grande
Clarica Pension and Group Savings Client, Pepsi Bottling Group

"We've designed our Web site to make it easy for you to get information and make decisions. Pension and Group Savings customers enjoy convenient, secure access to account services through Customer Access and Sponsor Access. Customer Access takes online service further, providing customers with a one-stop view of their entire Clarica portfolio, including employer-sponsored pension and health benefits and personal investments and insurance – all through one ID and password. So, if your organization has both pension and health benefits through Clarica, your employees, like all of our customers, have secure access to their complete Clarica picture, when it's convenient for them."

Diana Deverall-Ross
Vice-President
e-Business, Clarica

Supporting Communities

"In the months and years ahead, does Clarica intend to support communities to the same degree that it does now?"

Anne MacKay
United Way
Director of
Development

"Yes, we do. In fact, we launched our renewed corporate citizenship program, Clarica's Contribution, in 2000. This program builds on our tradition of giving to enhance the quality of life in the communities where we live and work. Beyond matching our members' charitable donations across the country, we're working closely with various community groups to identify needs and then come up with innovative programs that can make a positive difference."

Mary Lou Oakes
Clarica's loaned representative to the United Way

Staying Competitive

"How can Clarica help me manage the cost of my employee benefit plan?"

Sophie Cournoyer
Québec Group Insurance Client,
Entourage Technology Solutions Inc.

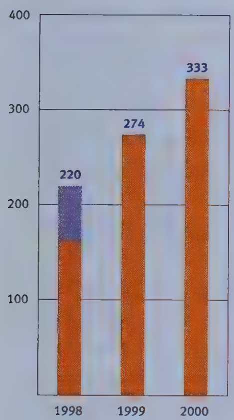
"Employee benefits are important to your company's success, since healthy employees mean a healthy company. But the cost of benefit plans requires careful management. Clarica can help you educate employees about illness prevention and manage employees who need to be off work. For example, employees receive HealthTalk, a newsletter that educates them about health-related issues. When employees do need to be absent from work, we help them return to work as quickly and safely as possible. By getting your employees back to work, we help you reduce your disability costs and improve your bottom line."

Walter Zukowsky
Group Insurance
Vice-President
(Québec), Clarica

Financial Review

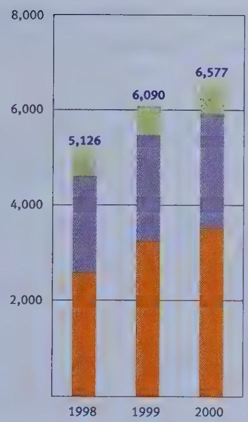
Financial Highlights

Adjusted Shareholders' Net Income[1]
(Cdn$, in millions)



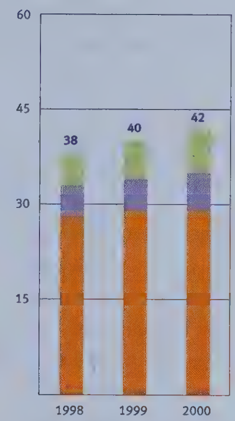
Unusual items[2]
Shareholders' net income

Premiums, Deposits & Equivalents
(Cdn$, in millions)



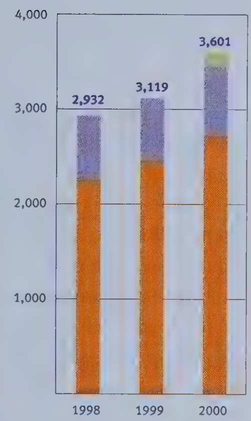
ASO premium equivalents
Deposits
Premiums

Assets under Administration
(Cdn$, in billions)



Group segregated funds
Retail market-based funds
Corporate assets

Capital
(Cdn$, in millions)



Preferred shares
Subordinated debt
Common shares & retained earnings

Business Segment Performance

	ROE[3]	Net Income		
	2000	2000	1999	1998
Retail insurance	11.9%	$ 76	$ 65	$ 50
Wealth management	13.8	86	76	68
Group insurance	12.1	26	15	1
U.S. insurance & savings	12.7	16	24	10
Reinsurance	14.7	29	9	10
Surplus	–	100	85	81
Total	12.9%	$ 333	$ 274	$ 220

MCCSR

	2000	1999	1998
Minimum Continuing Capital and Surplus Requirement	201%	186%	178%

Ratings

Rating Agency	Rating Assigned
A.M. Best	A+
Dominion Bond Rating Service	1C-1
Moody's Investors Service	Aa3
Standard & Poor's	AA

1 1999 and 1998 results are pro forma, reflecting the shareholder basis adopted upon demutualization July 21, 1999.

2 Unusual items include shareholder integration costs of $100 million (after tax) from the MetCan acquisition, and a gain of $42 million (after tax) from the reduction of our investment in Perigee Inc.

3 ROE for business segments is calculated based on MCCSR and includes allocated surplus income.

Management's Discussion and Analysis

(All references to Notes refer to the Notes to the Consolidated Financial Statements)

The Management's Discussion and Analysis (MD&A) provides a comprehensive review of Clarica's financial condition and performance for the three years ended December 31, 2000, 1999 and 1998. The review is based on the 2000 consolidated financial statements and 1999 and 1998 pro forma information. The pro forma information presents annual results on a shareholder basis, consistent with the structure adopted at demutualization on July 21, 1999. The presentation of the MD&A is outlined in the following table:

Understanding Our Business

Understanding our business is important to interpreting our results. As background to our financial review, we provide the following overview of our business structure, products and pricing philosophy, and sources of earnings.

Business Structure

The Company operates a shareholder account and a participating (par) account. The shareholder account includes all non-participating business, while the par account includes all participating business. Participating business means that policyholders are eligible to share in the experience gains and losses of the par account through policy dividends. Net income attributable to shareholders includes the earnings on the non-participating business plus transfers from the par account. These transfers represent profits from the participating policies (excluding most experience gains and losses), and fees earned for the management of the par account. This account structure was adopted upon demutualization July 21, 1999.

Products and Pricing

Insurance Products

Clarica offers retail (individual) insurance and group insurance products that provide coverage for future events over a long period of time. The uncertainty of the timing of these events and the long-term nature of these contracts makes the recognition of profit unique compared to other industries.

To determine the price of an insurance contract we employ actuarial methods, which require assumptions to be made about the following:

- the timing and amount of benefit payments,
- the timing and amount of future premiums,
- the expenses and taxes we will incur in administering the policy,
- the timing and impact of policy terminations, and
- the investment income that will accumulate on the excess of premiums received over benefit payments, expenses and taxes.

Because each product has different characteristics and risks, each product requires its own set of assumptions. The assumptions are used to calculate the

future liability for each policy so we can record the actuarial liability on our balance sheet. Actuarial liabilities are set up based on our best estimate of the above assumptions and include an additional amount called a provision for adverse deviation (PfAD). The PfAD recognizes the probability that actual experience will differ from the assumptions made and is determined in accordance with generally accepted actuarial practices. The difference between the present value of all future expected profits of the policy and the present value of PfADs is recognized in income, at the time of the sale. This difference is referred to as a pricing gain or loss. As time elapses, the PfADs are released as they are no longer required, creating a stream of profit recognized over the life of the contract.

Profit on group insurance products is recognized in the same manner as retail insurance products. However, group insurance products are generally re-priced each year at renewal, and as such the pricing is less sensitive to assumptions than for retail insurance. Group insurance products also include fee-based products, such as administrative services only (ASO).

Wealth Management Products

Wealth management products are offered on both a market-based and guaranteed basis. Our capabilities in both of these product lines allow us to meet shifts in consumer demand caused by changes in capital markets and the interest rate environment.

Market-Based Funds

Clarica administers a broad range of mutual funds and segregated funds on a fee basis and records the gross fee income on the Consolidated Statement of Income. The fees earned are based on a percentage of the market value of the assets administered, which is subject to market fluctuation. Market-based funds are not part of Clarica's general funds and are excluded from the Consolidated Balance Sheet. These assets are included in assets under administration.

Guaranteed Funds

Guaranteed funds refer to any investment product with a fixed or secured rate of return. Similar to insurance products, the price and actuarial liabilities established for these products include assumptions for:

- investment income
- mortality
- expenses and taxes
- provisions for adverse deviations (PfADs)

As with insurance products, pricing gains and losses are recognized at the time guaranteed funds are sold and the profit is recognized over the life of the contract.

Sources of Earnings

The sources of profit and loss flow through many lines on the Consolidated Statement of Income and are not easily identified. To identify sources of earnings, management uses an earnings analysis, which compares expected actuarial results to actual experience. In the long run, the profit realized is the difference between the price of the product and the benefits and expenses which are paid out. Profit is recognized over the life of the contract and comes from four general sources:

1. Expected Profit, Fee Income & Surplus Earnings

The PfAD is established to provide for unexpected experience changes. As time elapses the experience becomes known and the PfAD is released into income as it is no longer required. This regular release of the PfAD over the life of the policy represents a steady income stream. The PfAD release flows through "benefits paid & provided for" on the income statement.

Surplus earnings represent investment income earned on surplus assets (those assets not required to support future policy benefits), net of associated expenses. Fee income represents the earnings on the administration of mutual funds, segregated funds and ASO business.

2. Pricing Gains and Losses

When a product is priced, the level of the required PfADs may be more or less than the profit margins priced into the product. When the present value of profit margins at the time of the sale exceeds the present value of PfADs, there is a pricing gain immediately recognized in income. The converse occurs when the present value of profit margins at the time of the sale is less than the present value of PfADs. In this situation, a pricing loss is incurred and immediately recognized in income. This is also known as reserve strain. Investment products can also generate pricing gains to the extent that increased net spreads are locked in.

Pricing gains and losses flow through several income and expense components of the income statement and as such are not clearly identifiable in the financial statements.

3. Experience Gains and Losses

An experience gain or loss is the difference between actual experience and the actuarial assumption used in establishing the actuarial liabilities. When a payment is made to a beneficiary, it is recognized in the income statement as benefits paid. At the same time, the actuarial liabilities are reduced to reflect the discharge of the obligation. This reduction flows through "benefits paid & provided for" on the income statement. The net result

is the recognition in the income statement of the difference between these two amounts, which represent an experience gain or loss. Experience gains and losses may arise on all actuarial assumptions.

4. Changes in Assumptions

Throughout the year, the Company reviews assumptions against actual experience to ensure they continue to reflect best estimates. Based on this review, assumptions may be revised to reflect emerging trends. On non-participating policies, changes in assumptions are recognized in income immediately by adjusting the actuarial liabilities for the full present value of the change. On participating policies, these changes are reflected in policy dividends and as such do not generally have an impact on shareholders' net income. Changes in assumptions are included in "benefits paid & provided for" on the income statement.

Financial Review

Basis of Presentation

The year 2000 represents Clarica's first full year as a public company. Prior to July 21, 1999, the Company operated as a mutual company, owned by its policyholders. Following demutualization in 1999, reporting of net income was changed to a shareholder basis, as described in Note 1b. Pro forma information on this shareholder basis for 1999 and 1998 has been provided throughout this Annual Report. The pro forma information is calculated based on actual results for the participating and non-participating blocks of business for those periods. Adjustments for the required transfers between the funds have been made in accordance with the principles used subsequent to demutualization.

To allow for meaningful trends and analysis, net income has been adjusted for one-time items in 1998 as detailed in the following table. The one-time items represent non-recurring items related to various strategic initiatives.

Selected Financial Information[1]

(Cdn$, in millions, except earnings per share)	2000	1999	1998
Revenue			
Premiums	**$ 3,530**	$ 3,247	$ 2,592
Investment income	**2,079**	2,091	1,855
Fees & other income	**242**	213	236
	5,851	5,551	4,683
Benefits & expenses			
Benefits paid & provided for	**4,139**	4,073	3,378
General expenses & commissions	**1,015**	944	826
	5,154	5,017	4,204
Income before integration costs, taxes & goodwill charges	**697**	534	479
Integration costs	**–**	–	272
Income taxes	**249**	205	66
Goodwill charges, net of tax	**108**	59	30
Net income	**$ 340**	$ 270	$ 111
Unusual items (after tax)			
Integration costs	**–**	–	163
Gain on Perigee	**–**	–	(42)
Adjusted net income	**$ 340**	$ 270	$ 232
Less:			
Participating policyholders' net income	**–**	(4)	12
Dividends to preferred shareholders	**7**	–	–
Adjusted shareholders' net income	**333**	274	220
Adjusted earnings per share	**$ 2.48**	$ 2.04	$ 1.65

1 1999 and 1998 results are pro forma, reflecting the shareholder basis adopted upon demutualization July 21, 1999.

Overview of Consolidated Results

Net income attributable to common shareholders ("net income") for 2000 grew 22% to $333 million, or $2.48 per common share. In comparison, 1999 pro forma net income was $274 million, or $2.04 per common share. The growth in earnings per share for the year of 22% was well ahead of the target range of 10% to 15%. The increase for the year was driven by the contribution of the acquired life retrocession business and strong performance by all Canadian business segments.

Return on common shareholders' equity (ROE) was 12.9% for 2000, an increase from 11.8% in 1999. We expect to meet our previously stated 2001 target ROE of 13%, and expect to reach 14% in 2003.

One of the Company's primary objectives continues to be growth through the pursuit of selective acquisitions. During 2000, Clarica acquired, or agreed to acquire, businesses in two of its key target growth areas: reinsurance and wealth management. In addition to significantly boosting Clarica's position within these markets, both acquisitions were priced to provide a return on equity of at least 15%.

Acquisition of the Life Retrocession and Financial Reinsurance Business of Sun Life

In April 2000, the Company acquired the life retrocession and financial reinsurance business of Sun Life Financial Services of Canada Inc. (Sun Life) for $170 million. The acquisition included life retrocession business and a small number of financial reinsurance contracts. Through this transaction, Clarica's individual life retrocession market share in North America grew to approximately 20% from 5%, moving us to second place from fourth in terms of market share.

Acquisition of the Canadian Group Retirement Services Business of Royal Trust

In December 2000, the Company agreed to acquire the Canadian group retirement services business of the Royal Trust Company and Royal Trust Corporation of Canada. The transaction, which closed on January 31, 2001, primarily involves defined contribution pension plans sold on a group basis. Also included are group retirement savings and profit sharing plans, as well as stock purchase and option plans. The acquisition added approximately $3.1 billion in assets under administration, making Clarica one of the leading pension providers in Canada.

The purchase price of $48.9 million will be financed from internal resources. Goodwill of $45.4 million will be recorded and amortized over 15 years. Including integration costs of $17 million (after tax), the impact of the acquisition on earnings in 2001 will be a decrease of approximately 15 cents per share. The acquisition will be accretive to earnings in the year 2002 and enhances our capabilities for future growth in this attractive market.

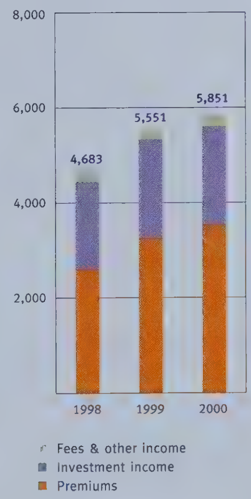
1999 Compared to 1998

Adjusted pro forma net income attributable to shareholders for 1999 was $274 million, an increase of 25% from 1998. This high growth rate reflected improvements in profitability in the group insurance segment, strong performance in the U.S. life insurance operations, including one-time items, and benefits realized from the integration of the Canadian operations of the Metropolitan Life Insurance Company (MetCan). Operating results in 1999 included a full year of MetCan's operations, compared to approximately one-half year in 1998.

Revenue

Revenue consists of premiums, investment income and fees & other income. Total revenue grew 5% to $5,851 million in 2000 from $5,551 million in 1999. Premiums were the largest contributor to the increase, growing 9% from the previous year.

Sources of Revenue
(Cdn$, in millions)



Premiums, Deposits & Equivalents

(Cdn$, in millions)	2000	1999	1998
Retail life & health insurance	**$ 1,749**	$ 1,499	$ 1,239
Group life insurance	**358**	294	227
Group health insurance	**660**	671	588
Individual annuities	**451**	466	296
Group annuities	**312**	317	242
Total premiums	**$ 3,530**	$ 3,247	$ 2,592
Retail mutual fund deposits	**515**	541	869
Retail segregated fund deposits[1]	**781**	381	228
Group segregated fund deposits	**1,105**	1,321	934
Total deposits	**2,401**	2,243	2,031
ASO premium equivalents	**646**	600	503
Total premiums, deposits & equivalents	**$ 6,577**	$ 6,090	$ 5,126

1 Retail segregated fund deposits are presented net of transfers from Clarica Portfolio retail mutual funds.

Total premiums, deposits & equivalents increased 8% in 2000 to $6,577 million from $6,090 million in 1999. Growth in premiums of 9% was primarily driven by the acquisition of the life retrocession business. The Company had its best ever RRSP season in the first quarter of 2000, resulting in a significant increase to retail market-based fund deposits. Clarica's retail market-based net sales growth and redemption rates continue to be better than the industry average. Clarica continues to find innovative ways to service its clients in this market. Clients now have the ability to purchase index funds online and our product offerings have been expanded to include several third party funds. Deposits to group segregated funds for 2000 totaled $1,105 million, behind 1999 results of $1,321 million, which were buoyed by large asset transfers from one client. ASO premium equivalents increased during the year with the transfer of one large insured client to an ASO basis. The transfer also resulted in a reduction to group insurance premiums.

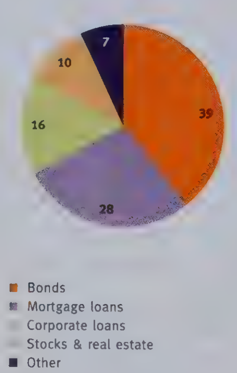
1999 Compared to 1998

In 1999, total premiums, deposits & equivalents grew 19% to $6,090 million from $5,126 million in 1998. Growth in premiums came from the additional volume created by the MetCan block of business, expansion of our product lines and sales force and a consumer preference for short-term annuities. Growth in total deposits came from high demand for group segregated funds, and included the sale of one large pension contract. There was an overall decrease in retail market-based fund deposits, as investors responded to market fluctuations throughout 1999.

Investment Income

Investment income is driven by asset mix, which is based on policy obligations, investment guidelines and the overall size of the Company's actuarial liabilities. The size of the investment portfolio will change as the level of actuarial liabilities changes. The mix of the investment portfolio reflects the large portion of actuarial liabilities that require long-term fixed returns. As a result, income earned on marketable bonds and mortgage and corporate loans continues to represent the largest source of investment income at 83% in 2000 (84% in 1999 and 1998).

Investment Income by Asset Type
(in percentages)



Investment income represents the investment income earned on all invested assets, including assets that support actuarial liabilities. However, since investment income is one of the assumptions used in establishing the actuarial liabilities, it does not directly affect net income, except in the surplus business segment. Each year the change in actuarial liabilities, which is included in the income statement under benefits paid & provided for, includes an expected investment income amount. The difference between actual investment income and this expected amount is recognized in net income as an experience gain or loss. The surplus segment does not contain actuarial liabilities and therefore fluctuations in investment income earned on surplus assets directly affect net income.

(Cdn$, in millions)	2000	1999	1998
Gross investment income	**$ 1,869**	$ 1,841	$ 1,658
Amortization of realized & unrealized gains	**240**	256	246
Net charge to loan provision	**(30)**	(6)	(49)
Total investment income	**$ 2,079**	$ 2,091	$ 1,855

The change in investment income to $2,079 million in 2000 from $2,091 in 1999 is due to higher credit losses, including an increase of $11 million in general provisions, as well as a modest decrease in equity returns. While credit losses were higher than 1999 levels, they remain below the expected long-term level.

1999 Compared to 1998

The 1999 increase reflected the inclusion of a full year of MetCan's investment income, higher asset levels generated by ongoing business operations, and exceptional credit experience.

Fees & Other Income

The principal components of fees & other income are fees earned on the administration of retail market-based funds, group segregated funds and ASO contracts. In 2000, fees & other income grew 14% to $242 million compared to $213 million in 1999. The increase is primarily due to increased wealth management fees stemming from the growth in mutual funds and segregated funds under administration. Fees earned on ASO contracts also increased during the year, primarily due to the transfer of one large client from an insured to an ASO basis.

1999 Compared to 1998

Fees & other income in 1998 included a $62 million gain from the reduction of Clarica's investment in Perigee Inc. Excluding this gain, fees & other income for 1999 grew 22% to $213 million. The growth was attributable to increased fees earned on contracts acquired as part of MetCan in mid 1998, as well as higher levels of assets under administration throughout 1999.

Benefits Paid & Provided For

(Cdn$, in millions)	2000	1999	1998
Life insurance benefits & surrenders	**$ 1,564**	$ 1,358	$ 1,089
Annuity payments & maturities	**1,479**	1,588	1,289
Health insurance benefits	**583**	628	576
Policyholder experience dividends	**444**	422	351
Interest on amounts on deposit	**69**	77	73
Total benefits paid & provided for	**$ 4,139**	$ 4,073	$ 3,378

Benefits paid & provided for includes benefits paid to policyholders and beneficiaries as well as the changes in actuarial liabilities for the year. When a payment is made to a policyholder or beneficiary, the actuarial liability is reduced and flows through the changes in actuarial liabilities for the year. The net impact of the payment and the change in actuarial liabilities is the recognition of experience gains and losses. Other changes in the liability, which are also included in benefits paid & provided for, are the establishment of new liabilities and changes in actuarial methods and assumptions. The increase in benefits paid & provided for to $4,139 million in 2000 from $4,073 million in 1999 is primarily the establishment of new liabilities resulting from business growth. Changes in actuarial assumptions in 2000 decreased benefits paid & provided for by $16 million (pre-tax). For a detailed reconciliation of changes in actuarial liabilities refer to Note 9.

1999 Compared to 1998

Benefits paid & provided for increased 21% to $4,073 million in 1999 from $3,378 million in 1998. The increase was consistent with the increase in business volume from the inclusion of a full year of MetCan business.

Expenses

(Cdn$, in millions)	2000	1999	1998
Operating expenses	**$ 636**	$ 609	$ 535
Interest on subordinated debt	**39**	44	35
General expenses	**675**	653	570
Commissions	**340**	291	256
Total expenses & commissions	**$ 1,015**	$ 944	$ 826
Operating expenses as a % of premiums, deposits & equivalents	**9.7%**	10.0%	10.4%
Commissions as a % of premiums, deposits & equivalents	**5.2%**	4.8%	5.0%

General expenses and commissions increased 8% to $1,015 million in 2000 from $944 million in 1999. Integration costs associated with the life retrocession business and general increases in business volumes were the primary reasons for the increase. As a percentage of premiums, deposits & equivalents, operating expenses were 9.7% in 2000, compared to 10.0% in 1999. Commissions, as a percentage of premiums, deposits & equivalents, increased to 5.2% in 2000, from 4.8% in 1999, reflecting changes in our business mix. Life retrocession business increased substantially in 2000 and the commissions for this business are generally heavily-weighted to the early years of the treaties.

1999 Compared to 1998

General expenses increased 15% to $653 million in 1999 from $570 million in 1998. The increase reflected the inclusion of a full year of MetCan operating expenses, additional interest on the 1998 subordinated debt issue, and expenditures associated with our new public company structure. Heightened business volumes also led to an increase in commission expense to $291 million in 1999 from $256 million in 1998.

Taxes

Summary of Taxes

(Cdn$, in millions)	2000	1999	1998
Effective income tax rate	**42.2%**	43.1%	37.3%
Income taxes	**$ 249**	$ 205	$ 66
Other taxes			
Premium taxes	**$ 43**	$ 41	$ 33
Investment income taxes	**20**	22	19
Property taxes	**27**	29	27
Payroll taxes	**17**	17	16
Goods & services tax and sales tax	**19**	21	16
Business and other taxes	**4**	5	7
	$ 130	$ 135	$ 118
Total income & other taxes	**$ 379**	$ 340	$ 184

Effective May 2, 2000 the Ontario government reduced its corporate tax rate by 1%, resulting in an overall drop in Clarica's statutory rate from 43% to 42.5%. Consistent with this decrease, the Company's effective income tax rate has decreased from 43.1% to 42.2%. For a reconciliation of the statutory tax rate to the effective tax rate refer to Note 18.

Income taxes increased to $249 million from $205 million in 1999. The increase is primarily attributable to higher earnings in the current year. Other taxes decreased marginally to $130 million from $135 million in 1999, as detailed in the above table.

1999 Compared to 1998

Income taxes increased by $139 million from $66 million in 1998 to $205 million in 1999. Most of this increase is related to unusual items included in 1998 net income. The effective tax rate increased to 43.1% in 1999 due primarily to the significant growth in pre-tax income over 1998. Other taxes incurred in 1999 increased 14% to $135 million from $118 million in 1998, primarily due to the inclusion of a full year of premium taxes on MetCan business in 1999 compared to six months in 1998.

Goodwill Charges

Goodwill charges for 2000 were $108 million compared to $59 million in 1999. The amortization of goodwill for 2000 decreased to $41 million from $59 million in 1999 as the $70 million in accelerated MetCan goodwill related to par insurance was completed in the second quarter of 2000. Included in 2000 is a goodwill charge of $67 million relating to the transfer of two blocks of business as explained in Note 4. This goodwill charge was offset by related decreases in actuarial liabilities and therefore had no impact on net income.

1999 Compared to 1998

Goodwill charges increased to $59 million in 1999 from $30 million in 1998, reflecting a full year of the amortization of goodwill related to MetCan compared to six months in 1998.

Business Segment Analysis

Clarica's operations are divided into business segments based on geographic location and on the products and services provided (See Note 22). The surplus segment represents corporate operations, including the management of the surplus portfolio.

The overall growth in shareholders' net income of 22% was driven by the acquisition of the life retrocession business in our reinsurance segment and strong contributions from the Canadian business segments. Earnings growth in the Canadian business segments was largely attributable to pricing gains in the retail insurance and wealth management segments, and continued improvements in the profitability of group insurance.

Net Income by Business Segment

	2000		1999 (pro forma)		1998 (pro forma)	
(Cdn$ in millions)	$	%	$	%	$	%
Canada						
Retail insurance	**76**	**23**	65	24	50	23
Wealth management	**86**	**25**	76	28	68	31
Group insurance	**26**	**8**	15	5	1	–
	188	**56**	156	57	119	54
United States						
Insurance & savings	**16**	**5**	24	9	10	5
Reinsurance	**29**	**9**	9	3	10	5
	45	**14**	33	12	20	10
Surplus	**100**	**30**	85	31	81	36
Adjusted shareholder net income	**333**	**100**	274	100	220	100

The insurance industry typically uses an earnings analysis in order to interpret financial results. This analysis compares the actual experience on a business segment to the actuarial assumptions used in the pricing and valuation of those products. As a result, it explains the sources of earnings better than a traditional analysis of the income statement. The earnings analysis for the year 2000, by business segment, is provided in the following table. A comparison to 1999 and 1998 is included within the discussion on each segment.

One of the commitments we have made to our shareholders is to lead the industry in financial disclosure. Delivering on this promise, we began disclosing the return on equity achieved by each business segment in the second quarter of 2000. In this Annual Report we are leading the way again by disclosing our sources of earnings by business segment.

Cindy De Longhi, Vice-President Corporate Finance

Earnings Analysis

(Cdn$, in millions)	Canada: Retail Insurance	Canada: Wealth Management	Canada: Group Insurance	United States: Insurance & Savings	United States: Reinsurance	Surplus	Total
Expected profit, fee income & surplus earnings	$ 52	$ 48	$ 18	$ 18	$ 24	$ 100	$ 260
Pricing gains (losses)	18	22	9	(2)	–	–	47
Experience gains (losses)	4	11	2	(7)	6	–	16
Change in assumptions	2	5	(3)	7	(1)	–	10
Net income	$ 76	$ 86	$ 26	$ 16	$ 29	$ 100	$ 333

Canadian Operations

Distribution Channels

Clarica offers a wide range of life and health insurance and investment products to retail and group customers through various distribution channels. Our product portfolio and distribution channels are outlined on the inside cover of this Annual Report.

Retail Distribution

Our exclusive retail sales force, one of the largest in Canada, is positioned to provide personal service and a superior level of advice. The sales force plays a pivotal role as relationship manager in meeting customer needs through financial analysis, specialized advice, competitive products, superior customer service, as well as Internet-based and other technologies. Our focus is to grow the size and productivity of our retail sales force through selective recruitment, investment in training and technology, and management development.

Sales force

	2000	1999	1998
Managers	**250**	213	238
Agents	**2,749**	2,722	2,751
Associate agents & product specialists	**110**	65	24
Total exclusive sales force	**3,109**	3,000	3,013
Four year retention rate[1]	**31%**	30%	29%
Average new annual retail insurance premiums (in thousands) per agent[2]	**$ 29.9**	$ 28.7	$ 24.0

1 26% in 2000 (24% in 1999, 22% in 1998) after including former MetCan agents.

2 Includes retail life insurance and critical illness.

We have extended the reach of our retail distribution capabilities through the use of the Internet and distribution alliances. Customers may now buy certain products through the Internet on referral from an agent or directly. Agents receive a prospecting and sales commission for these referrals. Distribution agreements include our exclusive agreement with Allstate Insurance Company of Canada, which allows Allstate's agents to sell Clarica's insurance and segregated fund products. Allstate agents selling Clarica products in 2000 totaled 428. In December 2000 Clarica announced a marketing agreement that will permit Clarica and its agents to refer customers who wish to buy and sell stocks and bonds to TD Waterhouse. Clients can then access their TD Waterhouse account and related stock market information through Clarica's Web site or directly through TD Waterhouse's other multi-channel services. Building on our developing individual health insurance business, we announced in January 2001 an agreement that will allow Investors Group's national network of approximately 3,500 consultants access to our Long Term Care insurance product through our Long Term Care specialists.

To align the interests of the Company, the agent and the policyholder, Clarica uses a level commission structure. This system rewards agents for selling to new customers while retaining and servicing existing customers. Effective January 2001, the Company revised the agent's contract to better balance the rewards for selling and retaining customers. The contract will place greater emphasis on new sales and management expects it to increase future sales levels.

Agent productivity, as measured by new annual insurance premiums, continued to improve, increasing 4% over 1999, following a 20% increase in 1999 over 1998. The increase in 1999 reflects the addition of MetCan agents, who focused more on sales of higher-premium life products. Agent productivity is enhanced through ongoing training; product, marketing and administration support; and advanced technology.

Group Distribution

Clarica's group insurance and pension and group savings products are sold through agents, brokers and employee benefits consultants. These professionals work with the Company's sales executives to develop innovative benefit and pension and group savings programs that meet each customer's particular needs. To support the service needs of its group customers, the Company has established call centres for both group insurance and group pension plans and maintains an interactive Web site.

e-Business became a major focus for Clarica in 2000 with the introduction of broad capabilities including Customer Access, our online self-service environment. We also introduced online personal health insurance and online index funds. During 2001, we'll continue to extend our online environment to provide our customers with value, flexibility and choice.

Brian Gill, Vice-President & Chief Information Officer, Information Services

Retail Insurance

Products

Clarica's principal retail insurance products are universal life, term life, and health. Historically, retail life insurance products were sold on a participating basis, with permanent life insurance being the largest component. However, since demutualizing in 1999 we've focused on shifting the product portfolio from a participating basis to a non-participating basis priced to achieve an ROE of 15% or more. In 2000, 81% of retail insurance sales were from non-participating products, surpassing our target of 75%. This focus will continue in 2001 and by year-end we expect non-par sales to account for 90% of total retail sales.

Retail Sales by Product

(Based on new annual premiums)	2000	1999	1998
Non-participating products			
Universal life	**40%**	29%	13%
Term life	**31**	7	–
Health	**7**	6	6
Permanent	**3**	–	–
	81	42	19
Participating products	**19**	58	81
	100%	100%	100%

Clarica is committed to structuring its products to meet the wide-ranging needs of our diverse customer base. We have introduced several new products in the last two years demonstrating this focus on customer needs and product innovation. In 2000, we launched a new universal life product that combines life insurance, critical illness and tax-effective saving in one product. This product also led the industry in bringing asset allocation to universal life investment options. The Company continues to build upon its existing retail health insurance portfolio, which currently includes long-term care, critical illness and personal health insurance.

Principal Markets

The Company has a diverse base of over 1.5 million retail insurance customers across Canada. Based on premium income, 41% of our retail insurance customer base is in Ontario and 26% is in Québec. Our remaining customer base is spread over the Prairie provinces (13%), British Columbia (12%) and the Atlantic provinces (8%).

Competitive Conditions

The Canadian retail life insurance market is highly competitive and mature. In addition to traditional life insurance competitors, Canadian banks have created or acquired life insurance subsidiaries to compete in this market.

Based on 1999 premium income, Clarica is the second largest provider of retail insurance in Canada with a market share of 14.7%.

Financial Performance

Earnings Analysis

(Cdn$, in millions)	2000	1999	1998
Expected profit & fee income	**$ 52**	$ 45	$ 35
Pricing gains (losses)	**18**	5	–
Experience gains (losses)	**4**	9	6
Change in assumptions	**2**	6	9
Net income	**$ 76**	$ 65	$ 50

Retail insurance net income continued to benefit from pricing gains, growing 17% in 2000 to $76 million from $65 million in 1999. Return on equity for the retail segment was 11.9% overall, consisting of 15.9% for non-participating business and 10.5% for participating business. The strong pricing gains achieved in the year combined with higher profits on participating business were partially offset by less favourable mortality experience.

Key Indicators

(Cdn$, in millions)	2000	1999	1998
Sales (annualized gross premiums)			
Par	**$ 16**	$ 47	$ 50
Non-par	**$ 68**	$ 34	$ 12
Policy termination rate (%)			
Clarica	**5.9%**	5.2%	5.3%
Industry	**Not available**	7.5%	7.0%

Premium income for the segment grew 3% to $1,227 million in 2000 from $1,189 million in 1999. The growth is consistent with expectations, given the maturity of this market. Our exclusive sales force and innovative products continued as key competitive advantages. Our policy termination rate of 5.9% remains below the 1999 industry average, which we attribute to our high level of customer service and unique compensation system that aligns customer service with agent rewards. Management expects future growth will be enhanced by expanded distribution of retail health insurance products as well as e-Business initiatives.

1999 Compared to 1998

Shareholder net income for the retail segment increased 30% in 1999 to $65 million from $50 million in 1998. This significant increase reflected the inclusion of a full year of MetCan business and pricing gains realized on the non-par Custom Term product. Favourable morbidity experience within the par transfer was partially offset by a reduction in the unusually high mortality gains of 1998.

Additional volumes from MetCan bolstered premiums for the segment to $1,189 million in 1999 from $915 million in 1998. Premium levels were further enhanced by increased agent productivity.

Wealth Management

Products

The Canadian wealth management segment focuses on meeting customers' financial needs by offering a wide range of asset accumulation products and services which are distributed through retail and group distribution channels. Reflecting the Company's response to customers' desire for greater choice, Clarica has entered into distribution agreements with leading name-brand investment fund managers for market-based funds in order to offer a package of options to customers. In 2001, an extensive group of third party retail mutual funds will be added, creating even more choice for our customers. We also continue to internally manage guaranteed rate products such as annuities and GICs. We recently introduced Ratecheck GIC, which features a base rate guarantee with upside potential related to the performance of interest rates.

Principal Markets

Clarica markets its retail wealth management products to individuals across Canada. Group pension and group registered retirement savings plan (RRSP) products are marketed to a diverse range of Canadian employers and their respective employees. The Company has relationships with approximately 6,300 plan sponsors representing an estimated 300,000 employees. The business acquired from Royal Trust in 2001 will add 170 plan sponsors and 175,000 employees.

Competitive Conditions

The retail wealth management market is highly fragmented and very competitive. Banks, mutual fund companies, other life insurers, brokers and financial planners are the major sources of competition in this market with the five top competitors holding 42% of all Canadian mutual fund assets under administration as at December 31, 2000.

The group pension and savings market is also competitive but not as highly fragmented as the retail market. The main competitors in this market are other life insurance companies, banks and trust companies, mutual fund companies, and investment counsellors. Based on Benefits Canada's industry survey, as at June 30, 2000 Clarica ranked third with $6 billion in money purchase plan assets (i.e. defined contribution registered pension plans, group registered retirement savings plans and deferred profit sharing plans) representing a 10.3% market share. Adding in the Royal Trust business acquired in 2001, we rank second in this market, with a market share of approximately 16%.

Financial Performance

Earnings Analysis

(Cdn$, in millions)	2000	1999	1998
Expected profit & fee income	**$ 48**	$ 42	$ 39
Pricing gains (losses)	**22**	18	23
Experience gains (losses)	**11**	11	8
Change in assumptions	**5**	5	(2)
Net income	**$ 86**	$ 76	$ 68

Through the acquisition of the group retirement services business of the Royal Trust Company and Royal Trust Corporation of Canada, which closed January 31, 2001, Clarica has become one of the leaders in the pension & group savings market. In addition to adding over $3 billion in assets under administration, the acquisition will allow us to enhance our capabilities in this growing market.

Barry Triller, Executive Vice-President Canadian Customers

The Canadian wealth management business continued to experience strong growth driven by sales of retail market-based funds. The growth in this market reflects initiatives launched in late 1999 and early 2000, including expanded product choice and revised compensation strategies. Net income for the segment rose 13% to $86 million in 2000 compared to $76 million in 1999. Return on equity was 13.8% for the year. The earnings increase was primarily due to investment pricing gains and additional fee income from an increase in assets under administration.

Key Indicators

(Cdn$, in millions)	2000	1999	1998
Premiums, deposits & equivalents			
Individual annuity premiums	**$ 340**	$ 374	$ 263
Group annuity premiums	**312**	317	242
Retail mutual fund deposits	**515**	541	869
Retail segregated fund deposits[1]	**781**	381	228
Group segregated fund deposits	**1,105**	1,321	934
Total premiums, deposits & equivalents	**$ 3,053**	$ 2,934	$ 2,536
Assets under administration			
Individual annuities in force	**$ 4,311**	$ 4,624	$ 4,954
Group pension annuities in force	**5,343**	5,710	5,855
Retail mutual fund assets	**2,925**	3,357	3,644
Retail segregated fund assets	**2,780**	1,898	993
Group segregated fund assets	**6,792**	6,286	5,008
Total assets under administration	**$22,151**	$ 21,875	$ 20,454

1 Retail segregated fund deposits are presented net of transfers from Clarica Portfolio retail mutual funds.

Total premiums, deposits & equivalents for the wealth management segment grew 4% to $3,053 in 2000 from $2,934 in 1999. Retail premiums and deposits increased 26% to $1,636 million, led by growth in retail market-based funds of 41%. Market conditions throughout the year made retail market-based funds, composed of retail mutual funds and retail segregated funds, the preferred investment vehicles for most of 2000. These market conditions and the Company's own growth strategies were the key drivers of the high growth. Total annuity premiums decreased 6% to $652 million from $691 million in 1999 as a result of a shift in consumer preference.

Deposits to group segregated funds for the year decreased to $1,105 million from $1,321 million in 1999. The decrease was consistent with expectations, given the large asset transfers from one client in 1999. The January 2001 acquisition of the group retirement services business from Royal Trust will significantly increase deposits next year. The acquisition also increases Clarica's presence in the pension market and expands our capabilities, which will enhance sales in future years.

Changes in Market-Based Fund Assets

(Cdn$, in millions)	2000	1999	1998
Retail market-based funds			
Assets, beginning of year	**$ 5,255**	$ 4,637	$ 3,747
Sales	**1,296**	922	1,097
Internal transfers	**80**	95	57
Market appreciation net of expenses	**(113)**	501	(116)
Acquisition of MetCan	**–**	–	432
Redemptions	**(813)**	(900)	(580)
Assets, end of year	**$ 5,705**	$ 5,255	$ 4,637
Group segregated fund assets			
Assets, beginning of year	**$ 6,286**	$ 5,008	$ 4,058
Sales	**1,105**	1,321	934
Internal transfers	**(3)**	–	91
Market appreciation net of expenses	**368**	672	127
Acquisition of MetCan	**–**	–	382
Redemptions	**(964)**	(715)	(584)
Assets, end of year	**$ 6,792**	$ 6,286	$ 5,008

1999 Compared to 1998

Net income for the segment increased 12% to $76 million in 1999 from $68 million in 1998. Increased fee income earned on assets under administration and effective expense management were the primary contributors to this increase. Improved credit experience was also a contributing factor. Lower pricing gains partially offset the increases in net income.

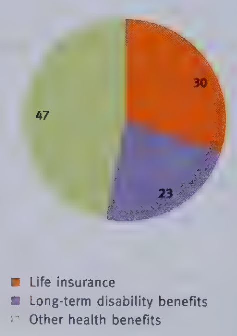
Premiums and market-based deposits for the segment increased 16% to $2,934 million in 1999 from $2,536 million in 1998. This increase was largely in short-term annuity products and group segregated fund deposits. The increase in short-term annuity products indicated customer preference for flexibility in their savings plans. As consumers chose to invest in fixed rate products, the demand for retail market-based funds decreased and deposits fell below 1998 levels. This decrease was consistent with industry trends. Deposits to group segregated funds, which are generally composed of pension funds, increased 41% over 1998, primarily due to asset transfers from one client.

Group Insurance

Products

Clarica offers a broad range of group insurance products on a pooled, refund accounting and administrative services only (ASO) basis. The popularity of ASO contracts has increased in recent years, and currently accounts for 43% of our group business, based on 2000 premiums and premium equivalents. Long-term disability and group life insurance continue to be the most significant contributors to the profitability of this business line.

Group Insurance Premiums by Product
(in percentages)



Principal Markets

Clarica offers products to all sizes of groups in four main segments as described in the table below:

Segment	Product Offering	% of Business[1]
Large groups	Customized	59
Mid-size groups	Extensive menu of options	36
Small groups	Standard package with a few options	3
Creditor	Creditor insurance	2

1 Based on 2000 premiums and ASO premium equivalents.

Competitive Conditions

The pricing environment in this market has improved over the last two years. This trend is demonstrated by Clarica's ability to maintain its customer retention rate close to the industry average despite sharp price increases. Ongoing changes in price structure and the implementation of cost reductions continue to move Clarica towards a target of industry-leading expense levels.

Based on 1999 premiums and ASO premium equivalents, Clarica ranks fourth in the Canadian group insurance industry. Our market share is 9.3%.

Financial Performance

Earnings Analysis

(Cdn$, in millions)	2000	1999	1998
Expected profit & fee income	**$ 18**	$ 16	$ 15
Pricing gains (losses)	**9**	9	4
Experience gains (losses)	**2**	(13)	(20)
Change in assumptions	**(3)**	3	2
Net income	**$ 26**	$ 15	$ 1

Group insurance showed another strong improvement in profitability, with 2000 net income climbing to $26 million from $15 million in 1999. This business continues to benefit from price increases and expense reductions initiated in 1999. Return on equity for the year was 12.1%.

Key Indicators

(Cdn$, in millions)	2000	1999	1998
Premiums, deposits & equivalents			
Premiums	**$ 870**	$ 872	$ 738
ASO premium equivalents	**646**	600	503
Total premiums, deposits & equivalents	**$ 1,516**	$ 1,472	$ 1,241
Sales			
New annualized premiums & ASO premium equivalents	**$ 57**	$ 33	$ 71
Incurred claims ratio (%)			
Life insurance	**73.0%**	71.6%	67.8%
Long-term disability benefits	**68.7%**	68.8%	78.4%
Other health benefits	**80.6%**	85.4%	87.1%
Total incurred claims ratio	**75.6%**	77.8%	80.2%

Total premiums, deposits & equivalents for the group insurance segment increased to $1,516 million in 2000 from $1,472 in 1999, as we continue to focus on growing the business profitably. The mix of premiums and ASO premium equivalents has changed due to the conversion of a large client from an insured to ASO basis.

The total incurred claims ratio for the year ended December 31 improved to 75.6% in 2000 from 77.8% in 1999. Claims ratios have improved across most product lines because of price increases in the past two years.

1999 Compared to 1998

The group insurance segment showed a marked turnaround in profitability, with 1999 net income climbing to $15 million from $1 million in 1998. The group life insurance business continued to perform strongly and group health insurance showed considerable improvement. The improvement in group health was attributable to initiatives in pricing and claims management, as well as positive investment experience. Premiums and ASO premium equivalents increased 19% to $1,472 million in 1999 from $1,241 million in 1998, principally through the addition and retention of the MetCan block of business.

Distribution Channels

The U.S. insurance & savings segment markets its products through independent marketing companies and agents. The Company's life retrocession and special risk reinsurance business is generated through direct relationships with life reinsurers, and special risk and financial reinsurance brokers.

U.S. Insurance & Savings

Products

The primary product line of the U.S. insurance & savings operations is universal life insurance, which accounts for approximately 80% of policies in force. Our single premium universal life insurance products for key employees in the banking community (Bank Plan) have been key contributors to sales growth in recent years, and currently account for the majority of first year life insurance premiums.

Principal Markets

Our principal markets are those served by our independent marketing organizations and agent distribution system, as well as those reached through our niche product and distribution activities. We design products and services for the needs and wants of a market ranging from the highly specialized markets (such as Bank Plan) to the more sophisticated individual markets in the U.S.

We find niche markets through special market activities where we identify markets, develop differentiated product and recruit appropriate distributors. Attractive niche markets are those that are too small for major insurance competitors, but require high ratings. Speed of execution, product development skills and technology are used to earn market share in these areas.

Competitive Conditions

The United States market is large and competitive with nearly 1,500 life insurance companies. The Company competes in relatively small pockets of the total market against a somewhat limited universe of other companies offering similar products through independent marketing companies and agents. Competition is strong both in product innovation and for distribution points.

Financial Performance

Earnings Analysis

(Cdn$, in millions)	2000	1999	1998
Expected profit & fee income	**$ 18**	$ 17	$ 16
Pricing gains (losses)	**(2)**	(1)	(1)
Experience gains (losses)	**(7)**	6	1
Change in assumptions	**7**	2	(6)
Net income	**$ 16**	$ 24	$ 10

Net income from the U.S. insurance and savings segment was $16 million for 2000, down 33% from $24 million in 1999. The decrease was the result of one-time positive items which increased 1999 income by $5 million, a return to normal mortality levels compared to very favourable experience in 1999, and experience losses in 2000 related to lower investment spreads and high expenses. Actuarial assumption changes related to favourable long-term mortality trends added to earnings for this line. Return on equity for the year was 12.7%.

Key Indicators

(Cdn$, in millions)	2000	1999	1998
Sales			
Life insurance premiums	**$ 119**	$ 111	$ 108
Annuity premiums	**$ 111**	$ 88	$ 27
Life insurance in force	**$ 1,984**	$ 1,935	$ 2,315
Policy termination rate (%)			
Clarica U.S.	**6.4%**	5.6%	5.8%
Industry	**Not available**	7.6%	8.5%

Premiums for the segment grew 12% to $398 million from $355 million in 1999. Growth in Bank Plan life sales and equity-indexed annuities accounted for most of the increase. Enhancing product lines and growing the number of distribution points continue to be the key strategies for this segment.

1999 Compared to 1998

Net income for the U.S. insurance & savings segment increased to $24 million in 1999 compared to $10 million in 1998. Business growth and strong investment performance on interest-sensitive products accounted for approximately half of this increase with other items, including tax refunds, accounting for the remainder.

Total premiums for the segment in 1999 were $355 million compared to $319 million in 1998. Annuity sales for 1999 were more than triple 1998 levels due to the popularity of equity-indexed annuities. Life insurance sales increased 3% in 1999, led by Bank Plan product increases which were partially offset by declines from sales through our agent network.

Our strategy is to rapidly become the elite company of choice for today's independent marketing companies. We'll differentiate ourselves by building innovative e-business technology, continuously enhancing our products, being quick to market, and fostering a fast-paced, knowledge-based culture. This strategy will position us for dynamic growth.

Charles Grover, President & Chief Executive Officer, Clarica U.S. Inc.

Reinsurance

Products

The Company provides customized reinsurance solutions to life reinsurers and financial reinsurance and special risk brokers.

Principal Markets

The reinsurance operation's primary focus is life retrocession in North America. The Company's life retrocession customers are 20 of the 23 largest North American life reinsurers. In financial reinsurance, the Company provides surplus relief to U.S. insurance and reinsurance companies. Our special risk customers include managing general underwriters and reinsurance brokers.

Competitive Conditions

On April 10, 2000, the Company purchased the life retrocession and financial reinsurance business of Sun Life for $170 million. With this acquisition, the Company has moved into the number two position within the growing North American individual life retrocession market, capturing an approximate 20% market share. The three largest life retrocession companies hold in aggregate an approximate 70% market share.

Financial Performance

Earnings Analysis

(Cdn$, in millions)	2000	1999	1998
Expected profit & fee income	$ 24	$ 6	$ 5
Pricing gains (losses)	–	–	–
Experience gains (losses)	6	3	5
Change in assumptions	(1)	–	–
Net income	**$ 29**	$ 9	$ 10

Benefiting from the acquisition of additional life retrocession business in April of this year, net income for the reinsurance segment soared to $29 million in 2000 from $9 million in 1999. Capital and actuarial liabilities were increased during the year to meet the increased requirements related to segregated fund guarantees. Despite these increases and the integration costs associated with the acquisition, return on equity remained high at 14.7%, reflecting the favourable profit potential of this business. The integration of the acquired business is substantially completed and is expected to be finalized by the end of the first quarter of 2001.

Key Indicators

(Cdn$, in millions)	2000	1999	1998
Life retrocession premiums	$ 330	$ 90	$ 80
Special risk premiums	53	50	35
Total premiums	$ 383	$ 140	$ 115

1999 Compared to 1998

The segment's combined operations contributed $9 million in net income in 1999, compared to $10 million in 1998. Favourable mortality experience in life retrocession was offset by less favourable morbidity experience on special risk business. Premiums for the segment increased 22% to $140 million in 1999 from $115 million in 1998, largely due to several significant life retrocession contracts secured in 1999.

Surplus

The surplus segment represents corporate operations, including the management of the surplus investment portfolio.

Financial Performance

Net income for the surplus segment was $100 million for 2000, up 18% from 1999 when expenses associated with initiatives undertaken in that year were higher.

Investment income in the segment was relatively flat with the increased asset base offsetting a decrease in the consolidated yield on surplus assets. The yield decreased to 7.4% in 2000 from 9.2% for 1999 due to lower fixed income reinvestment rates; a reduction in the amount of amortization of equity gains, caused by weakened equity markets; and a higher level of credit losses. The higher level of credit losses in 2000 included an $11 million net increase in general provisions and reflects a more normal level of losses compared to the exceptional credit experience in 1999.

1999 Compared to 1998

Surplus net income increased 5% to $85 million in 1999 from $81 million in 1998. The increase reflected increased investment income resulting from very favourable credit experience and growth in asset levels. These increases were partially offset by increased corporate expenses primarily from the transition to a public company.

Investment Management

Quality investments enable us to meet policyholders' future needs while earning a reasonable return for our shareholders. To preserve the quality and diversity of our asset portfolio, we employ prudent investment strategies and lending practices. These practices include:

- asset mix objectives by business segment,
- rigorous credit analysis and underwriting of new investments,
- specific approval authorities by asset and transaction type, and
- concentration limits for characteristics such as geography, industry and borrower.

Our success in maintaining a quality asset portfolio is reflected in 95% of our marketable bond portfolio being rated A or above, and 99% being rated investment grade.

Asset Mix

Our primary investment objective is to maintain a diversified portfolio of assets with a mix of risk, return, and liquidity appropriate for each business segment. To achieve this objective we purchase assets with similar characteristics to the liabilities they support. For example, fixed rate assets such as bonds and mortgages primarily support our liabilities for fixed rate annuities. The table below shows the book value of assets as a percentage of the portfolio. The portfolio mix for 2000 has remained relatively stable with prior years, reflecting our consistent business product mix.

Book Value of Assets

	2000	1999	1998
Cash & short-term investments	**9.1%**	8.5%	6.4%
Bonds	**34.1**	35.7	36.7
Mortgage loans	**25.1**	26.6	27.3
Corporate loans	**13.9**	14.6	14.7
Stocks	**7.1**	4.6	4.1
Real estate	**2.7**	2.7	2.7
Other	**8.0**	7.3	8.1
	100.0%	100.0%	100.0%

Credit Management

Credit losses in 2000 continued to be below long-term expected rates but increased from 1999 levels, which represented the most favourable part in the current credit cycle.

Credit losses incurred in 2000 include an $11 million net increase in general provisions. This increase is not associated with any existing known loss but is being established for future potential losses on our existing assets.

The high level of professionalism of our investment team is reflected in the important contribution that investment operations have made to Clarica's financial results in 2000 and in the exceptional quality of our asset portfolio. We will continue to find innovative strategies for enhancing investment returns while maintaining our strong credit and investment risk management culture.

Michael Stramaglia, Executive Vice-President Reinsurance and Chief Investment Officer

Credit Losses (Recoveries) by Asset

(Cdn$, in millions)	2000	1999	1998
Marketable bonds	**$ 1**	$ –	$ –
Residential mortgage loans	**1**	(2)	3
Non-residential mortgage loans	**6**	4	15
Corporate loans	**10**	3	21
Other	**1**	(1)	–
General provisions	**11**	2	10
Total credit losses	**$ 30**	$ 6	$ 49

Clarica's credit provisions include three categories: specific provisions, asset default provisions, and general credit allowances.

- Specific provisions represent amounts established to cover the losses on known impaired loans. Clarica's total specific provision at December 31, 2000 was $67 million ($73 million in 1999, $84 million in 1998).
- The asset default provision is established to cover losses expected over the life of policy obligations. Clarica's asset default provision at December 31, 2000 was $684 million ($655 million in 1999, $598 million in 1998). The provision forms part of the actuarial liabilities for future policy benefits.
- General allowances have two components:
  1) General provisions for expected future losses on current surplus assets, which amounted to $40 million as at December 31, 2000 ($29 million in 1999, $22 million in 1998).
  2) An economic cycle adjustment (ECA), which is used to cover volatility in credit experience. The ECA allows for the true long-term cost of credit losses to be recognized in the Company's results. The ECA is part of the asset default provision included in actuarial liabilities for future policy benefits. As at December 31, 2000 the ECA was $88 million ($68 million in 1999).

Impaired Loans

The overall credit quality of Clarica's portfolio remains high with an impaired loans ratio of 0.2% at December 31, 2000 compared with 0.3% at the end of 1999, and 0.7% at the end of 1998. The impaired loans ratio is a common metric for measuring the strength of a financial institution's fixed income portfolio. This ratio measures the net carrying value of the impaired loans against the value of the related asset portfolio. The improvement in the ratio was due to the strengthening of the Company's general credit provision and proactive credit management practices.

Capital Management

Determining the amount and mix of capital requires a balance of several objectives. Clarica's goal is to maintain sufficient capital to meet the expectations of shareholders, policyholders and regulators while optimizing return on equity. We monitor our capital position through various measures and continually look for ways to increase capital efficiency. During the year, we undertook several capital transactions to strengthen and diversify the Company's capital base.

March 2000	• $150 million preferred share offering
June 2000	• $235 million tender program to buy back and cancel a significant portion of the Clarica U.S. subordinated bonds
October 2000	• $300 million subordinated debenture offering

The Company's capital structure as at December 31, was:

(Cdn$, in millions)	**2000**	1999	1998
Subordinated debt			
Series 1 debentures	**$ 250**	$ 250	$ 250
Series 2 debentures	**150**	150	·150
Series 3 debentures	**300**	–	–
Guaranteed bonds	**43**	270	286
Total debt	**743**	670	686
Preferred shares	**148**	–	–
Shareholders' equity	**2,710**	2,449	–
Policyholders' equity	**–**	–	2,246
Total capital	**$ 3,601**	$ 3,119	$ 2,932
Debt-to-capital ratio	**21%**	21%	23%

A key measure of capital management is the debt-to-capital ratio, which was 21% as at December 31, 2000, falling within our target range of 20% to 25%.

We also measure our capital using the industry standard of the Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio. The calculation of the ratio is prescribed by the Office of the Superintendent of Financial Institutions (OSFI) as available capital over required capital. Available capital is calculated in accordance with OSFI guidelines and is not the same as the capital shown on our Consolidated Balance Sheet.

Strong earnings and capital transactions undertaken in 2000 increased the MCCSR ratio while the life retrocession acquisition and additional segregated fund guarantee requirements reduced the ratio. Overall, Clarica's MCCSR ratio increased to an estimated 201% as at December 31, 2000, well above the OSFI requirement of 120% and just above our target range of 175% to 200%.

Clarica believes it has fully complied with the additional segregated fund guarantee requirements, as issued by OSFI in 2000. The effect on the MCCSR ratio was a decline of 12 percentage points for the year.

Risk Management

The objectives of risk management at Clarica are to:
(i) protect the Company against events which could cause significant financial loss; and
(ii) ensure we earn an appropriate return on all business activities relative to the level of risk involved in those activities.

The Board of Directors has overall responsibility for risk management. Through the Investment Committee and the Audit Committee, the Board oversees Clarica's activities that result in risk exposures. Several management committees are in place to direct and approve all significant risk exposure resulting from daily business activities and new strategies. As part of this function, the committees also establish policies and limits for invested assets.

The risk management functions throughout Clarica are carried out at a business unit level as well as at a corporate level. At the business unit level, risk management focuses on understanding and mitigating risk through a variety of means: product design, sensitivity analysis, experience studies, prudent lending criteria, hedging programs and rigorous interest rate risk management. Responsibility for risk management at the business unit level lies with the business segment and asset managers. At the corporate level, risk management takes a broader view, focusing on a complete set of risks facing Clarica and the interactions between these risks. Corporate risk management has overall accountability for the measurement and monitoring of the risks facing the organization. They are supported by the Investment Risk Management Office, which has specific accountability for the management of credit and market risk. In addition, Corporate Audit Services independently assesses and reports on organizational and operational risks.

Risk management encompasses all risks to which the Company is exposed. We summarize risk into six categories – credit, market, insurance, business, operational and organizational. Each risk category and how we manage it is described below.

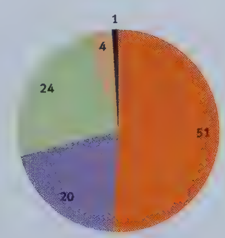
Credit Risk

Credit risk is the risk that an amount owed to us will not be paid, resulting in a financial loss. We manage credit risk through prudent credit policies and diversification of our asset portfolio. Credit risk related to reinsurance transactions is managed through the exclusive use of reinsurers with a financial rating of AAA or better. Diversification of the asset portfolio takes place on several levels, as described in the following subsections.

By Type of Asset

Marketable bonds represent the largest percentage of our asset portfolio. Investment grade bonds, which carry a credit rating of BBB or better, make up 99% of our bond portfolio (99% in 1999, 100% in 1998). Government bonds make up 62% of the portfolio (61% in 1999, 62% in 1998).

Bonds
(in percentages)



By Geography

Our mortgage loan and real estate portfolios are primarily held within Canada, consistent with the concentration of our liabilities. We diversify the portfolios across the country, with most invested in Ontario.

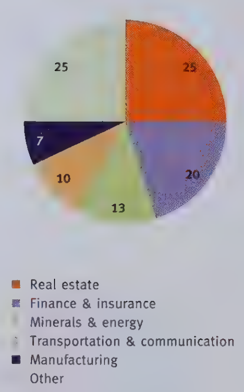
At Clarica, we believe an integrated view of risk and return will enhance our ability to deliver shareholder value. The economic capital model we're developing is an important part of this framework, and will allow us to better measure the risk-return trade-off, improving business performance. We also aim to achieve a low cost of capital through active management of our capital base.

Doug Brooks, Senior Vice-President and Chief Actuary

By Industry Sector

Our corporate loan portfolio is spread across a diversified mix of industries with emphasis placed on those industries with proven credit ratings. As at December 31, 2000, 20% (25% in 1999, 23% in 1998) was invested in the finance and insurance sector, 25% (22% in 1999, 20% in 1998) was invested in the real estate sector, and the remainder in sectors such as minerals and energy, transportation and communication, and manufacturing.

Corporate Loans
(in percentages)



By Borrower

Our investment policies limit exposure to any one corporate creditor, or group of related creditors, to $300 million. In addition to this broad limitation, exposure to any one corporate creditor is also subject to further limits based on the borrower's credit rating and the collateral available. As at December 31, 2000, our largest single loan exposure to a single company was $49 million ($50 million in 1999 and 1998), while our largest total exposure to a single company or group of related companies was $246 million ($258 million in 1999, $225 million in 1998).

Market Risk

Market risk is the risk that the value of Clarica's assets or liabilities will vary due to changes in market prices or indices. The changes in value could result in realized or unrealized gains or losses for Clarica. Specific market risks include interest rate risk, liquidity risk, foreign exchange risk and the risk of changes in equity and real estate prices.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will result in economic loss. The potential loss could be caused by having to sell assets to meet current obligations when interest rates have risen, or by having assets mature before the obligations, requiring a reinvestment when rates have fallen. As such, we are exposed to interest rate risk only to the extent that the cash flows from the assets supporting the liabilities are not matched in terms of timing and amount. We manage this risk by continually monitoring the cash flows of each of our asset and liability portfolios and calculating their sensitivity to changes in the interest rate. We use several measures to determine our exposure, including duration, key rate sensitivity and value-at-risk (VAR) analysis. We have established maximum allowable risk exposures for all measures used. The exposure is controlled by changing the composition of the portfolio or through the use of derivative instruments.

The Canadian annuity business represents the largest portion of our assets and is the most sensitive to changes in interest rates. As at December 31, 2000, the impact on this business of an immediate 1% increase in the interest rate would have been a $1 million decrease in net income. Conversely, an immediate 1% decrease in the interest rate would have resulted in a $1 million increase in net income.

Risk of Changes in Value of Equities and Real Estate

Another element of market risk is the risk that fluctuations in stock market or real estate prices will result in financial loss. These fluctuations potentially impact the return on surplus assets, fee income earned on market-based funds, and expenses associated with segregated fund guarantees and guaranteed minimum death benefits. Our investment policy includes limits on the amount and quality of equity and real estate investments and we monitor the results on a regular basis. The risk is further minimized by the relatively small percentage of equity and real estate investments held in our portfolio. The risk associated with our segregated fund guarantees is managed through product design and by the establishment of appropriate actuarial liabilities to cover potential payments. The impact of market fluctuations on investment income is minimized by the accounting policy for insurance companies which amortizes unrealized gains and losses into income at 15% for equities and 10% for real estate.

We monitor our risk level by measuring the impact on net income of a 10% decrease in stock market prices. As at December 31, 2000, an immediate 10% decline in the stock market would have reduced annual net income by $15 million ($11 million in 1999). The reduction reflects decreased fee income from market-based funds, decreased investment income on surplus assets and increased expenses due to guarantees.

Liquidity Risk

Liquidity risk is the risk that we will have insufficient funds available to meet our financial obligations as they fall due. The objective of liquidity management is to ensure we meet policyholders' and creditors' needs, and have the ability to pursue profitable business opportunities.

Liquidity is achieved through cash inflows – supplemented by assets readily convertible to cash – and by our ability to borrow funds. The nature of our business is such that we have a relatively stable inflow of cash from periodic premium payments. We manage our liquidity position by:

- monitoring cash flows on a daily basis,
- maintaining asset portfolios of liquid investments,
- maintaining access to external sources of liquidity such as commercial paper and lines of credit, and
- designing products with the goal of minimizing unexpected liquidity demands.

Liquidity Position

(Cdn$, in millions)	2000	1999	1998
Cash & short-term investments	**$ 2,701**	$ 2,424	$ 1,800
Marketable bonds	**10,598**	10,237	11,496
Marketable stocks	**1,721**	1,249	1,021
Total liquid assets	**$ 15,020**	$ 13,910	14,317
Unutilized credit	**985**	896	693
Total sources of liquidity	**$16,005**	$ 14,806	15,010
Liquidity ratio	**51%**	49%	51%

The liquidity ratio represents total liquid assets as a percentage of total corporate assets. Our current liquidity ratio of 51% allows us to meet cash flow needs while maintaining a reasonable rate of return on the portfolio.

Liquidity sources must also be evaluated against the potential uses. As at December 31, 2000, potential uses of liquidity, including all outstanding cash surrender values, were $15 billion ($15 billion in 1999 and 1998). These values represent the amount we would have to pay if all policyholders traded in their policies for the cash surrender values. Actual cash surrender experience is significantly less, averaging $1.6 billion annually.

Foreign Exchange Risk

Foreign exchange risk is the risk that amounts payable and/or amounts receivable will be negatively affected by changes in the exchange rate, resulting in a financial loss to the Company. While most of our assets and liabilities are in Canadian dollars, we are subject to foreign exchange risk in our international and U.S. portfolio holdings and our investment in subsidiaries. We manage this risk through various financial instruments, including foreign exchange forwards and swap agreements. These instruments allow us to hedge against adverse movement in the exchange rate.

Our policy is to limit our currency mismatch exposure (the difference between foreign assets and foreign liabilities) to US$250 million. As at December 31, 2000, our currency mismatch position, excluding our investment in U.S. subsidiaries and after taking hedged positions into account, was US$89 million, compared to US$23 million in 1999, and US$5 million in 1998.

Insurance Risk

Insurance risk is the risk that differences between the actual and expected amount of claims and benefit payments result in financial loss. It is our business to insure individuals against loss from future events, such as death or disability. However, if the losses incurred by individuals become excessive, we risk financial loss ourselves. Estimated claims and benefits are calculated based on assumptions about future events as described in the section "Understanding Our Business." Differences can result from variations in mortality (death) experience, morbidity (disability, health and dental) experience and the rate at which policies lapse or terminate.

We manage insurance risk through product design, sensitivity analysis and experience studies. When a product is designed, it undergoes extensive analysis including modeling and sensitivity testing. This analysis determines how sensitive the product will be to changes in assumptions and enables us to price the product accordingly. The more sensitive a product is to changes in assumptions, the higher the risk of financial loss. We do not sell products that exceed our established risk limits. We also build features into products that allow sharing of risk via adjustments to the price or the benefit, based on experience. For example, participating life insurance

policies incorporate a dividend mechanism whereby experience that is different than expected may be passed on to par policyholders.

Experience studies are completed on a regular basis to help us determine appropriate pricing assumptions and identify trends for future investigation. In addition, a reconciliation of actual results against the valuation assumptions is performed quarterly as part of the financial reporting process. Significant assumptions are reviewed annually considering the experience of the last year and any emerging trends. Note 2 provides a description of the assumptions made, while Note 10 discusses those assumptions most sensitive to change.

Exposure to insurance risk is reduced by the use of reinsurance guidelines, which limit the amount of risk retained under any one policy. Policies in excess of the limits are partially reinsured with other companies. For example, insurance on a single life in excess of $3 million is reinsured. Catastrophic loss reinsurance agreements are also in place to provide additional protection for the Company.

Business Risk

Business risk is the uncertainty about future revenue and profitability in each line of business. This includes risks associated with making strategic choices, actions of competitors and regulatory changes. We manage this risk through effective, comprehensive and dynamic business planning processes. Our processes include risk identification and analysis by business segment and assessment of the impact of those risks on certainty over future income streams, as well as the impact on customers and our infrastructure. The business plan includes development of specific strategies and financial targets for each segment, as well as measures to track performance.

Operational Risk

Operational risk is the risk of potential losses arising from processing errors by people or systems, or from low frequency but high severity events such as lawsuits, fraudulent activities or natural disasters affecting operating capability.

The most effective factor in the management of operational risks is a strong internal control environment. Senior management is accountable to Clarica's Board of Directors for maintaining a strong and disciplined control environment to provide reasonable assurance to shareholders and policyholders that operational risks are appropriately managed. The internal control environment is managed through:

- appropriate investments in management information systems,
- communication of business conduct boundaries across the organization through agent and staff codes of conduct and other methods,
- appropriate segmentation of duties in key areas, and
- establishment of an effective internal audit process.

The Board of Directors and its committees supervise and review the effectiveness of management's efforts in this regard. This includes annual reviews of key risk management policies and procedures, approval of credit and investment policies, updates on significant risk events and reports from Corporate Risk Management, Corporate Audit Services and the Company's external auditors.

Organizational Risk

Organizational risk is the risk that our organizational structure and capabilities are not adequate to develop and implement new business strategies or effectively manage the operations of the Company. The dynamic nature of the financial services industry increases the amount of organizational risk that we face. Strong change management practices are employed as a means of managing this exposure. These practices include:

- recognition and open communication on the changing culture associated with the shift from a mutual to a public company,
- appropriate market-based incentive programs to attract and retain qualified and experienced staff, and
- communication channels that allow for meaningful dialogue between employees and senior management.

Supplementary Table

Quarterly Information – Consolidated Statement of Income

(Cdn$, in millions, except basic earnings per share) For the three months ended	2000 Dec. 31	2000 Sept. 30	2000 June 30	2000 Mar. 31	1999 Dec. 31	1999 Sept. 30	1999 June 30	1999 Mar. 31
Revenues								
Premiums	$ 889	$ 825	$ 887	$ 929	$ 882	$ 788	$ 774	$ 803
Investment income	508	524	529	518	561	512	515	503
Fees & other income	61	64	62	55	54	53	50	56
	1,458	1,413	1,478	1,502	1,497	1,353	1,339	1,362
Benefits & expenses								
Benefits paid & provided for	948	1,014	1,056	1,121	1,088	997	982	1,006
General expenses	173	158	177	167	179	160	157	157
Commissions	87	80	91	82	73	71	74	73
	1,208	1,252	1,324	1,370	1,340	1,228	1,213	1,236
Income before income taxes	250	161	154	132	157	125	126	126
Income taxes	82	64	56	47	67	42	47	49
Income before goodwill charges	168	97	98	85	90	83	79	77
Goodwill charges, net of tax	73	6	14	15	15	15	14	15
Net income	$ 95	$ 91	$ 84	$ 70	$ 75	$ 68	$ 65	$ 62
Summary of net income								
Net income prior to demutualization	$ –	$ –	$ –	$ –	$ –	$ 22	$ 65	$ 62
Net income subsequent to demutualization								
Net income attributable to shareholders	92	90	81	70	77	48	–	–
Undistributed participating policyholders' net income	1	(1)	–	–	(2)	(2)	–	–
Dividends to preferred shareholders	2	2	3	–	–	–	–	–
Net income	$ 95	$ 91	$ 84	$ 70	$ 75	$ 68	$ 65	$ 62
Basic earnings per share	$ 0.69	$ 0.67	$ 0.60	$ 0.52	$ 0.57	$ 0.36	Not applicable	

Financial Reporting Responsibility

The accompanying consolidated financial statements and related financial information throughout this Annual Report have been prepared by management, which is responsible for their integrity, objectivity and reliability. Generally accepted accounting principles have been applied and management has exercised its judgment and made best estimates where deemed appropriate.

Management of the Company has established and maintains a system of internal controls that provides reasonable assurance that financial records are complete and accurate, assets are protected from unauthorized use or disposition, and the organizational structure provides for effective segregation of responsibilities. Management continually monitors the system of internal controls for compliance. The control environment is enhanced by the selection and training of competent management, and a business ethics policy demanding the highest standards of conduct by employees carrying out the Company's affairs.

An internal auditing program is maintained by the Company that independently assesses the effectiveness of the internal controls. This program is an integral part of the system of internal control and is carried out by a professional staff of auditors. The Corporate Audit Services Vice-President has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

The Company's Board of Directors, acting through the Audit Committee, which comprises directors who are not officers or employees of the Company, oversees management's responsibility for the financial reporting and internal control system.

The Actuary of the Company is appointed by the Board of Directors to carry out an annual valuation of the Company's liabilities for future policy benefits. In performing this valuation, the Appointed Actuary makes assumptions as to future investment yields, mortality, disability, policy terminations, expenses and other contingent events, taking into account the circumstances of the Company and the policies in force and in accordance with accepted actuarial practice as set out by the Canadian Institute of Actuaries. The Appointed Actuary's Report to the Shareholders, Policyholders and Directors appears in this Annual Report, and the Actuary also reports to the Superintendent of Financial Institutions Canada on these matters. The Appointed Actuary has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

Ernst & Young LLP, the auditors appointed by the shareholders and policyholders, examine the Company's financial statements. Their Auditors' Report to the Shareholders, Policyholders and Directors, which appears in this Annual Report, and their report to the Superintendent of Financial Institutions Canada, express an independent professional opinion of the fairness of presentation of the Company's consolidated financial statements in accordance with accounting requirements of the *Insurance Companies Act* (Canada). The auditors review the Company's financial and accounting controls and conduct such tests and procedures as they deem necessary under generally accepted auditing standards in Canada. They have full and free access to, and meet periodically with, the Audit Committee of the Board of Directors.

The Superintendent of Financial Institutions Canada performs periodic examinations of the Company to satisfy himself that the provisions of the *Insurance Companies Act* (Canada), having reference to the safety of the creditors, policyholders and shareholders of the Company, are being duly observed and that the Company is in sound financial condition.

David A. Ganong
Chairman of the Board

Robert M. Astley
President and Chief Executive Officer

Cindy De Longhi
Vice-President Corporate Finance

Auditors' Report to the Shareholders, Policyholders and Directors

We have audited the Consolidated Balance Sheets of Clarica Life Insurance Company (formerly The Mutual Life Assurance Company of Canada), including the separate Consolidated Statements of Net Assets of its Segregated Funds, as at December 31, 2000 and 1999, and the Consolidated Statements of Income, Shareholders' and Policyholders' Equity, Cash Flows, and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2000 and 1999, and the results of the Company's operations, cash flows, and the changes in the net assets of its Segregated Funds for the years then ended in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Ernst & Young LLP

ERNST & YOUNG LLP
Kitchener, Ontario
February 1, 2001

Appointed Actuary's Report to the Shareholders, Policyholders and Directors

I have valued the liabilities for future policy benefits of Clarica Life Insurance Company (formerly The Mutual Life Assurance Company of Canada) for its Consolidated Balance Sheets as at December 31, 2000 and 1999, and their change in the Consolidated Statements of Income for the years then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of liabilities for future policy benefits makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Douglas W. Brooks
Fellow, Canadian Institute of Actuaries
February 1, 2001

Consolidated Statement of Income

December 31 *(Cdn$, in millions)*	Note	2000	1999
Revenue			
Premiums for			
Life insurance		$ 2,098	$ 1,789
Annuities		763	783
Health insurance		669	675
	11	3,530	3,247
Investment income	17	2,079	2,091
Fees & other income		242	213
		5,851	5,551
Benefits & expenses			
Benefits paid & provided for			
Life insurance benefits & surrenders		1,564	1,358
Annuity payments & maturities		1,479	1,588
Health insurance benefits		583	628
Policyholder experience dividends		444	422
Interest on amounts on deposit		69	77
		4,139	4,073
General expenses		675	653
Commissions		340	291
		5,154	5,017
Income before taxes & goodwill charges		697	534
Income taxes	18	249	205
Net income before goodwill charges		448	329
Goodwill charges, net of tax	4	108	59
Net income		$ 340	$ 270
Summary of net income			
Net income prior to demutualization		$ –	$ 149
Net income subsequent to demutualization			
Undistributed participating policyholders' income		–	(4)
Dividends on preferred shares		7	–
Net income attributable to common shareholders	16	333	125
Net income		$ 340	$ 270

Consolidated Balance Sheet

December 31 *(Cdn$, in millions)*	Note	2000	1999
Assets			
Cash & short-term investments	5	**$ 2,701**	$ 2,424
Marketable bonds	5	**10,127**	10,178
Residential mortgage loans	5	**2,985**	3,396
Non-residential mortgage loans	5	**4,453**	4,186
Corporate loans	5	**4,128**	4,153
Stocks	5	**2,113**	1,310
Real estate	5	**804**	780
Other investments	5	**128**	110
Loans on policies	5	**766**	768
Goodwill		**334**	442
Other assets	7	**1,153**	781
Total assets		**$ 29,692**	$ 28,528
Liabilities & equity			
Liabilities for future policy benefits	9	**$ 21,627**	$ 21,554
Guaranteed trust deposits		**459**	471
Deferred net capital gains	12	**1,389**	1,183
Other liabilities	13	**2,610**	2,195
		26,085	25,403
Subordinated debt	14	**743**	670
Equity			
Participating policyholders' interest	1b	**6**	6
Shareholders' equity			
Preferred stock	15	**148**	–
Capital stock	15	**884**	884
Retained earnings		**1,821**	1,567
Currency translation account		**5**	(2)
		2,858	2,449
Total liabilities & equity		**$ 29,692**	$ 28,528

On behalf of the Board

David A. Ganong
Chairman of the Board

Robert M. Astley
President and Chief Executive Officer

Krystyna T. Hoeg
Director and Chair of the Audit Committee

Consolidated Statement of Shareholders' and Policyholders' Equity

December 31 *(Cdn$, in millions)*	Note	2000	1999
Participating policyholders' interest			
Appropriated capital	15e		
Balance, beginning of year		$ 10	$ –
Appropriation of capital		–	10
Balance, end of year		10	10
Undistributed participating policyholders' income			
Balance, beginning of year		(4)	–
Undistributed participating policyholders' income for the year		–	(4)
Balance, end of year		(4)	(4)
Total participating policyholders' interest		$ 6	$ 6
Policyholders' equity			
Retained earnings			
Balance, beginning of year		$ –	$ 2,188
Net income prior to demutualization		–	149
Transfer to shareholders' retained earnings at demutualization		–	(1,472)
Cash distributions to policyholders at demutualization		–	(865)
Total policyholders' equity		$ –	$ –
Shareholders' equity			
Capital & preferred stock	15		
Balance, beginning of year		$ 884	$ –
New shares issued		148	951
Conversion costs		–	(67)
Balance, end of year		1,032	884
Retained earnings			
Balance, beginning of year		1,567	–
Transfer from policyholders' equity at demutualization		–	1,472
Net income		340	125
Dividends on common shares		(79)	(20)
Dividends on preferred shares		(7)	–
Appropriation of capital	15e	–	(10)
Balance, end of year		1,821	1,567
Currency translation account		5	(2)
Total shareholders' equity		$ 2,858	$ 2,449

Consolidated Statement of Cash Flows

December 31 *(Cdn$, in millions)*	Note	2000	1999
Cash flows from operating activities:			
Net income		$ 340	$ 270
Changes in non-cash operating items			
Net provisions for impaired loans		30	6
Amortization of realized & unrealized gains	17	(240)	(256)
Amortization of premiums & discounts		(77)	(138)
Goodwill charges	4	108	59
Future income taxes		(115)	38
Sale, maturity or repayment of invested assets			
Marketable bonds		6,572	6,812
Mortgage & corporate loans		3,189	3,148
Stocks		1,491	250
Real estate		4	11
Purchase of invested assets			
Marketable bonds		(6,097)	(6,546)
Mortgage & corporate loans		(2,947)	(3,142)
Stocks		(1,950)	(303)
Real estate		(19)	(22)
Increase (decrease) from other operating activities			
Liabilities for future policy benefits		(235)	76
Other assets & liabilities		310	205
Taxes payable		(18)	217
Effect of exchange rates		(142)	120
Net cash from operating activities		204	805
Cash flows from investing activities:			
Acquisition of life retrocession & reinsurance business	3	(170)	–
Cash acquired on acquisition		1	–
Net cash from investing activities		(169)	–
Cash flows from financing activities:			
Issue of common shares for cash		–	884
Issue of preferred shares for cash	15a	148	–
Cash distributions to policyholders at demutualization		–	(865)
Purchase of subordinated debt	14	(235)	–
Issue of subordinated debt	14	300	–
Dividends on common shares		(79)	(20)
Dividends on preferred shares		(7)	–
Net (increase) decrease in commercial paper borrowings		115	(180)
Net cash from financing activities		242	(181)
Net increase (decrease) in cash & short-term investments		277	624
Cash & short-term investments, beginning of year		2,424	1,800
Cash & short-term investments, end of year		$ 2,701	$ 2,424
Supplementary disclosure of cash flow information:			
Amount of interest paid during the year		$ 125	$ 97
Amount of income taxes paid during the year		$ 131	$ 23

Consolidated Segregated Funds Statement of Net Assets

December 31 *(Cdn$, in millions)*	Note	2000	1999
Assets			
Cash & short-term investments		**$ 101**	$ 117
Marketable bonds		**476**	557
Stocks, segregated & mutual funds		**8,979**	7,506
Other assets & liabilities (net)		**16**	4
Net assets due to segregated fund policyholders		**$ 9,572**	$ 8,184

Consolidated Segregated Funds Statement of Changes in Net Assets

December 31 *(Cdn$, in millions)*	Note	2000	1999
Net assets, beginning of year		**$ 8,184**	$ 6,001
Additions			
Premiums		**2,042**	2,085
Investment income		**541**	233
Net market value gains (losses) & other income		**(179)**	734
Net transfers from the Company		**231**	64
		10,819	9,117
Net deductions			
Benefits paid to policyholders		**1,172**	874
Management & administration fees		**75**	59
Net assets, end of year		**$ 9,572**	$ 8,184

Notes to the Consolidated Financial Statements

(Canadian $ in millions unless otherwise stated)

1. Summary of Significant Accounting Policies

As required under section 331(4) of the *Insurance Companies Act* (Canada) ("the Act") these financial statements are, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada (OSFI), prepared in accordance with generally accepted accounting principles in Canada, the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants (CICA). None of the accounting requirements of the Superintendent of Financial Institutions Canada applicable to the Company are exceptions to generally accepted accounting principles. The following is a summary of the significant accounting policies and practices of the Company.

a) Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in which the Company has significant influence are accounted for using the equity method and proportionate consolidation is used to account for interests in real estate joint ventures.

b) Basis of Presentation

Clarica Life Insurance Company (formerly The Mutual Life Assurance Company of Canada) was organized as a mutual life insurance company until July 21, 1999. On that date, the Company converted to a stock life insurance company following approvals of its plan to demutualize by policyholders, OSFI and the Minister of Finance. To effect the conversion the Company distributed common shares, or made cash payments in lieu of common shares, to policyholders in exchange for their interests in the Company as a mutual insurer. Concurrent with the conversion, the Company issued common shares for cash through an Initial Public Offering (IPO). The proceeds of the IPO were used to make the cash payments to policyholders and for general corporate purposes.

Although participating policyholders no longer have an ownership interest in the Company by virtue of their insurance contracts, they continue to have certain contractual and legislative rights in connection with the net income derived from their policies. As a result of the conversion and in accordance with the Act, the Company has reclassified its capital accounts into shareholders' equity accounts and a participating policyholders' interest account. In addition, the Company segments assets related to the participating business from assets related to the non-participating business. Net income on participating policies is credited to participating policyholders' interest after deducting certain amounts that will accrue to the benefit of shareholders as explained below. All other net income is credited to the shareholders' account.

The Act and related regulations permit certain transfers from the participating policyholders' interest account to the shareholders' account. The provisions for adverse deviation related to the participating policies sold up to the conversion date will be included in shareholders' income as they are released over time from the corresponding liabilities for future policy benefits. In addition, shareholders' income will include a transfer from the participating policyholders' earnings of 3% of the policyholder dividends paid on participating policies sold after the conversion date.

c) Cash and Short-Term Investments

Cash and short-term investments are investments that consist of cash on hand, balances with banks and investments in money market instruments having original maturities of 90 days or less.

d) Foreign Currency

Assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Revenues and expenses are translated at average exchange rates for the year.

Gains and losses from currency translation of the Company's net investment position in foreign operations, net of hedged positions, are shown in the currency translation account, a separate item in shareholders' and policyholders' equity. Gains and losses from currency translation of domestic operations are included in current income except for realized and unrealized gains and losses arising from the translation of marketable bonds, mortgage and corporate loans, and stocks, which are included in a manner consistent with the accounting policy of the related item.

e) Marketable Bonds, Mortgage and Corporate Loans

Marketable bonds are carried at amortized cost. Mortgage and corporate loans are carried at amortized cost less repayments. Generally, realized gains and losses on sale are considered to be adjustments of future portfolio yields and are shown in the Consolidated Balance Sheet as part of deferred net capital gains. They are included in income over the lesser of the period to maturity of the investment or 20 years from the date of sale.

Impaired marketable bonds, mortgage and corporate loans include non-insured investments that are more than 90 days in arrears, insured investments that are more than 365 days in arrears, and investments that are less than 90 days in arrears but for which management does not have reasonable assurance that the full contractual amount of the bond, mortgage or loan (principal and interest) will be collected. Such investments are valued at their estimated realizable value calculated as the net present value or observable market price of their expected future cash flows when feasible. When such valuation is not feasible, impaired assets are valued at the current market value of the underlying security of the asset.

Interest on loans is accrued as earned until such time as the loan is classified as impaired. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt as to ultimate collection.

Restructured loans are valued at the net present value of the estimated cash flows discounted at the contractual interest rate in effect immediately prior to the restructuring.

An allowance for loan impairment, comprising specific and general provisions, is maintained at a level that, in management's judgement, is adequate to absorb all known credit related losses in the Company's portfolio. Specific provisions are established on particular assets in order to reduce their carrying value to estimated realizable value. The general provision is established based on the Company's historical loan loss experience and management's assessment of the credit risk of the entire portfolio, but cannot be determined on an item-by-item basis.

f) Stocks

Stocks are carried at a moving average market value whereby the carrying value is adjusted from cost towards market value at 15% per annum. Net realized gains and losses on the disposal of stocks are included in deferred net capital gains and included in income at 15% per annum on a declining balance basis. Declines in the market value of the entire equity portfolio that are not considered to be temporary in nature are charged to income immediately.

g) Real Estate

Real estate is carried at a moving average market value whereby the carrying value is adjusted from cost towards market value at 10% per annum. Net realized gains and losses on the disposal of real estate are included in deferred net capital gains and included in income at 10% per annum on a declining balance basis. Market values on each property are established by qualified appraisers at least every three years. Properties with significant book values are reviewed annually and reappraised when it is perceived that there may have been a material change in market value. Declines in the market value of the entire real estate portfolio that are not considered to be temporary in nature are charged to income immediately.

h) Loans on Policies

Policy loans are made to policyholders on the security of their policies in accordance with the provisions of their policy contracts. Policy loans are carried at their unpaid balance and are fully secured by the policy values.

i) Goodwill

Goodwill represents the excess of purchase consideration over the fair value of the net assets acquired. Goodwill is allocated to the lines of business, based on expected return on investments, and is amortized into income on a straight-line basis over its estimated useful life, but not exceeding a period of 20 years. The carrying value of goodwill is evaluated on an ongoing basis and any impairment in value is charged to income immediately. In order to determine whether any impairment in the value of goodwill exists, management considers each business segment's financial condition, projected future earnings and cash flows.

j) Other Assets

Included in other assets are furniture, equipment and leasehold improvements that are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on the straight-line basis at annual rates of 10% to 50%, sufficient to write the assets off over their estimated useful lives.

k) Liabilities for Future Policy Benefits

Liabilities for future policy benefits are the amounts that, together with future premiums and investment income, will be sufficient to pay future policy benefits, expenses and experience dividends on insurance and annuity contracts. These liabilities have been calculated using the policy premium method. The process of calculating liabilities for future policy benefits involves the use of estimates concerning such factors as mortality and disability rates, future investment yields, future expense levels and lapses, including a reasonable provision for adverse deviation. As the probability of deviation from estimates declines, this provision will be included in future income to the extent not required to cover adverse experience. Significant actuarial policies used to project benefits as described in Note 2, are based on Company and industry experience and are updated as appropriate.

l) Stock Incentive Plans

The Company maintains stock incentive plans for management and an employee/agent share ownership program, both of which are described in Note 15c. No compensation expense is recognized for the stock incentive plans when stocks or stock options are issued. Matching contributions made by the Company to the employee/agent share ownership program are expensed. Any consideration received by the Company on the exercise of stock options or the purchase of stock is credited to share capital. If stock or stock options are repurchased from management or employees/agents, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled is charged to retained earnings.

m) Income Taxes

The Company provides for income taxes using the liability method of income tax allocation. Under this method, current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted at the balance sheet date.

n) Employee Future Benefits

The Company provides certain pension and other future employment benefits to eligible participants upon retirement. These benefits are provided both on defined benefit and defined contribution bases and reflect compensation history, length of service and level of contributions. The cost of the defined benefits is actuarially determined and accrued using the projected benefit method pro-rated on service. This method involves the use of management's best estimates concerning such factors as expected plan investment performance, future salary increases, retirement ages of plan members and expected health care costs. These costs are recognized in the Consolidated Statement of Income in the period during which the services are rendered. Plan assets are carried at market values. The assets supporting the pension benefits are held in separate trusteed pension funds.

The estimated excess of the market value of plan assets over retirement obligations, including adjustments arising from plan amendments and changes in valuation assumptions, is included in income over the estimated average remaining lives of participants. Actuarial gains and losses are included in income using the corridor approach.

The cumulative difference between the pension expense and the funding contributions for the pension benefits is recorded in the Consolidated Balance Sheet under other assets or other liabilities, as appropriate. The accumulated value for the other employee future benefits is recorded in the Consolidated Balance Sheet as other liabilities.

o) Segregated Funds

Separate financial statements are provided for segregated fund transactions and balances. Segregated fund assets are carried at market values. The Consolidated Statement of Income includes fund management fees earned by the Company.

p) Derivatives

The Company uses options, futures, forward contracts, swaps and equity derivatives for asset liability management purposes. Swaps used to manage interest rate exposure from on balance sheet positions are accounted for on the accrual basis. Gains and losses on forwards, options and foreign exchange contracts are included in income or the currency translation account on the same basis as gains or losses on the underlying positions being hedged. Realized gains or losses on terminated contracts are deferred and amortized over the remaining life of the related position.

q) Presentation and Disclosure

Certain 1999 figures have been reclassified to conform to the presentation adopted in the current year.

2. Summary of Significant Actuarial Policies

As required under section 365(2) of the *Insurance Companies Act* (Canada), the liabilities for future policy benefits are, except as otherwise specified by OSFI, prepared in accordance with generally accepted actuarial practice, the primary source of which is the standards of practice of the Canadian Institute of Actuaries. None of the actuarial requirements of OSFI applicable to the Company are exceptions to accepted actuarial practice. The process of calculating liabilities for future policy benefits involves the use of estimates of the future events affecting the timing of claims and benefit payments. The following is a summary of the Company's significant actuarial policies with respect to the estimation of these events.

a) Mortality

The Company uses the most recent industry experience table appropriate for each product, adjusted for Company experience. Mortality improvements are projected into the future for annuitants using an appropriate industry projection scale but no mortality improvements are projected for life insureds.

b) Disability

The Company carries out an experience study every two years on group long-term disability. The Company's average experience over the last five years is used to establish the expected disability assumption.

c) Expenses

Policy maintenance expenses are derived from the Company's internal cost allocation studies. No productivity gains are projected. Unit expense factors are projected to increase into the future assuming an appropriate inflation rate.

d) Lapses

The Company does not sell lapse supported products; however, some lapse supported business has been obtained through acquisitions. For these products, the estimate of future lapse rates is based on a blend of Company experience and industry experience when no Company experience is available.

e) Investment Return

The Company maintains asset segments backing products with similar attributes. For each segment, the projected cash flows are combined with future reinvestment rates, derived from the current economic outlook and the Company's investment policy, to establish expected rates of return for the segment for all future years, including reasonable provisions for asset defaults. Any excess or deficiency in the market value of investments, with cash flow and interest profiles that match the liabilities, is comparable to the excess or deficiency in the market value of liabilities for future policy benefits.

f) Asset Defaults

Current and future investment returns reflect expected asset defaults. The Company annually reviews its asset default experience for the prior 10 years. The expected future asset defaults are based on the magnitude and cyclicality of defaults observed in the past.

g) Experience Dividends

Future experience dividends declared by the Board are included in liabilities for future policy benefits in the current operating year, in accordance with the established dividend policy of the Company. The actuarial liabilities reflect the expectation that the experience dividends will be adjusted in accordance with future experience.

3. Acquisition

On April 10, 2000, the Company acquired the life retrocession and financial reinsurance business of Sun Life Assurance Company of Canada for $170 through an assumption reinsurance transaction. The purchase price was allocated to the acquired assets and liabilities based on their estimated fair value at the acquisition date as follows:

Cash	$ 1
Marketable bonds	204
Other assets	327
	532
Liabilities for future policy benefits	308
Other liabilities	54
	362
Fair value of net assets acquired	170
Total purchase consideration, paid in cash	$ 170

4. Goodwill Charges

In 1998, the Company acquired The Metropolitan Life Insurance Company of Canada (MetCan) and recognized goodwill on the acquisition of $525. During 2000, the Company transferred two blocks of business acquired in the MetCan acquisition to other insurers, reducing the future earnings embedded in the remaining goodwill. Goodwill has been reduced by $67, the impact of which was fully offset by a reduction in actuarial liabilities. Total goodwill charges for 2000 were $108, including $41 of amortization.

5. Fair Value Disclosure

The excess or deficiency in the fair value of the Company's liabilities for future policy benefits must be considered in conjunction with the comparable excess or deficiency in the fair value of the investments which have cash flow and interest rate profiles matching the liabilities. For example, the market value excess of a particular liability is comparable to the excess of the marketable bonds, mortgage and corporate loans supporting that liability.

	2000			1999		
	Carrying Value	Fair Value	Fair Value Excess (Deficiency)	Carrying Value	Fair Value	Fair Value Excess (Deficiency)
On balance sheet						
Assets						
Cash & short-term investments	$ 2,701	$ 2,701	$ –	$ 2,424	$ 2,424	$ –
Marketable bonds						
Government	6,304	6,685	381	6,231	6,233	2
Corporate	3,823	3,983	160	3,947	4,004	57
Mortgage loans						
Residential	2,985	3,074	89	3,396	3,477	81
Non-residential	4,453	4,715	262	4,186	4,277	91
Corporate loans	4,128	4,444	316	4,153	4,353	200
Stocks						
Common	1,853	1,843	(10)	1,203	1,540	337
Preferred	260	261	1	107	102	(5)
Real estate						
Investment properties	385	477	92	373	438	65
Real estate joint ventures	307	340	33	296	311	15
Properties acquired by foreclosure	22	22	–	28	28	–
Real estate for own use	90	114	24	83	113	30
Other investments	128	128	–	110	110	–
Loans on policies	766	766	–	768	768	–
Future income taxes	25	60	35	154	89	(65)
Liabilities						
Liabilities for future policy benefits	21,627	23,797	2,170	21,554	23,122	1,568
Guaranteed trust deposits	459	472	13	471	467	(4)
Deferred net capital gains	1,389	–	(1,389)	1,183	–	(1,183)
Other liabilities	2,610	2,610	–	2,195	2,195	–
Subordinated debt	743	727	(16)	670	628	(42)
Off balance sheet						
Derivative financial instruments	–	81	81	–	142	142
Net total	$ 1,402	$ 1,926	$ 524	$ 1,386	$ 1,713	$ 327

The total fair value disclosed is not indicative of the fair market value of the Company.

The following methods were used to estimate the fair values of financial instruments:

Financial instruments with fair values equivalent to carrying values: Due to the nature of certain on balance sheet financial instruments, their carrying values were assumed to approximate their fair values. These financial instruments include cash and short-term investments, other investments, loans on policies and other liabilities.

Marketable bonds: The fair values of marketable bonds are based on market prices when available or quoted market prices of similar securities when market prices are not available.

Mortgage and corporate loans: The fair values of these loans are estimated as the net present value of expected future cash flows using current market interest rates (adjusted for prepayments as appropriate).

Stocks: Quoted market prices are used to determine fair values when available. If market prices are not available, business valuation techniques are used to estimate fair values.

Real estate: Fair values are estimated based on the most recent appraisal performed by qualified appraisers at least once every three years. Properties with significant book values are reviewed annually and reappraised when it is perceived that there may have been a material change in the market value.

Future income taxes: The fair values of future income taxes are estimated based on all financial assets and liabilities being measured at fair value.

Liabilities for future policy benefits: The fair values of the liabilities for future policy benefits have been estimated based on the fair values of the assets supporting them due to the interrelationship that exists between these two components in the balance sheet.

Guaranteed trust deposits: The estimated fair values of demand deposits are assumed to be equal to their carrying values due to their short-term nature. The fair values of fixed rate deposits are determined by discounting the contractual cash flows using market rates currently offered for similar remaining maturities.

Deferred net capital gains: Deferred net capital gains exist on a carrying value basis only as they represent the deferral of realized gains and losses on fixed term portfolio investments, stocks and real estate that will be amortized to income in future years.

Subordinated debt: The fair values of subordinated debt are based on quoted market prices when available or quoted market prices of debt with similar terms and risks when market prices are not available.

Off balance sheet: All derivatives used for asset liability management purposes are carried off balance sheet. The fair values of these instruments are estimated based on mathematical models utilizing inputs from published markets and/or broker/dealer price quotations (see Note 20).

6. Impaired Investments

Marketable bonds, mortgage and corporate loans and other investments classified as impaired are as follows:

	2000				1999
	Carrying Value	Allowance for Loan Impairment	Net Carrying Value	% of Portfolio	Net Carrying Value[1]
Marketable bonds	$ 1	$ 1	$ –	–	$ –
Residential mortgage loans	64	19	45	1.5	37
Non-residential mortgage loans	44	17	27	0.6	36
Corporate loans	48	28	20	0.5	26
Other investments	3	2	1	1.5	–
	160	67	93	0.4	99
General provision	–	40	(40)	(0.2)	(29)
Total	$ 160	$ 107	$ 53	0.2	$ 70

1 These amounts are net of specific provisions of $73.

The continuity of the allowance for loan impairment is as follows:

	2000	1999
Balance, beginning of year	$ 102	$ 106
Additional provisions for credit losses charged to income statement (net of recoveries)		
Specific	19	3
General	11	2
Write-offs of specific provisions	(25)	(9)
Balance, end of year	$ 107	$ 102

At December 31, 2000, liabilities for future policy benefits included an amount of $684 ($655 in 1999) to provide for expected future asset defaults and related expenses as well as a margin for adverse deviation in future investment returns.

The method of calculating the provision for expected future asset defaults was refined during 2000 resulting in an increase of $51 to the 1999 balance of $604. The restatement better reflects the operations of the par account, and did not change the overall liabilities or net income.

7. Other Assets

	2000	1999
Accrued investment income	$ 271	$ 253
Premiums in course of collection	169	121
Future income tax asset	25	154
Other	688	253
Total	$ 1,153	$ 781

8. Assets and Liabilities by Business Segment

Assets are selected such that they have characteristics compatible with the liabilities they are intended to support. To facilitate this matching, the Company's assets are divided into segments according to the attributes of the liabilities they support. For example, a segment of fixed rate assets exists to support the fixed rate obligations of the Company.

	Canada				United States			
2000	Retail Insurance Par	Retail Insurance Non-par	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Cash & short-term investments[1]	$ 365	$ 22	$ 551	$ 27	$ 75	$ 21	$ 1,640	$ 2,701
Marketable bonds	2,368	494	3,679	891	867	3	1,825	10,127
Mortgage loans	1,582	112	4,105	530	814	94	201	7,438
Corporate loans	521	115	2,015	411	544	86	436	4,128
Stocks	828	62	177	39	9	–	998	2,113
Real estate	385	2	1	–	2	–	414	804
Goodwill	–	–	–	–	–	–	334	334
Other assets	709	56	275	143	171	343	350	2,047
Total assets	$ 6,758	$ 863	$ 10,803	$ 2,041	$ 2,482	$ 547	$ 6,198	$ 29,692
Liabilities for future policy benefits	$ 6,280	$ 833	$ 9,701	$ 1,934	$ 2,362	$ 517	$ –	$ 21,627
Other liabilities	478	30	1,102	107	120	30	2,591	4,458
Subordinated debt	–	–	–	–	–	–	743	743
Equity	–	–	–	–	–	–	2,864	2,864
Total liabilities & equity	$ 6,758	$ 863	$ 10,803	$ 2,041	$ 2,482	$ 547	$ 6,198	$ 29,692

	Canada				United States			
1999	Retail Insurance Par	Retail Insurance Non-par	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Cash & short-term investments[1]	$ 196	$ 76	$ 679	$ (15)	$ 53	$ 16	$ 1,419	$ 2,424
Marketable bonds	2,493	706	3,470	943	772	101	1,693	10,178
Mortgage loans	1,558	78	4,570	469	698	–	209	7,582
Corporate loans	504	80	2,337	431	472	–	329	4,153
Stocks	519	18	173	34	2	–	564	1,310
Real estate	372	2	1	–	3	–	402	780
Goodwill	18	–	–	–	–	–	424	442
Other assets	682	52	257	128	141	91	308	1,659
Total assets	$ 6,342	$ 1,012	$ 11,487	$ 1,990	$ 2,141	$ 208	$ 5,348	$ 28,528
Liabilities for future policy benefits	$ 6,012	$ 993	$ 10,376	$ 1,891	$ 2,083	$ 199	$ –	$ 21,554
Other liabilities	330	19	1,111	99	58	9	2,223	3,849
Subordinated debt	–	–	–	–	–	–	670	670
Equity	–	–	–	–	–	–	2,455	2,455
Total liabilities & equity	$ 6,342	$ 1,012	$ 11,487	$ 1,990	$ 2,141	$ 208	$ 5,348	$ 28,528

1 Cash is managed on an overall company basis. Business segments may use intersegment borrowing to meet their individual cash flow needs.

9. Continuity of Liabilities for Future Policy Benefits

		2000		1999
Balance, beginning of year		**$ 21,554**		$ 21,535
Liabilities assumed on acquisitions		**308**		–
Change in liabilities related to MetCan		**(297)**		–
Change in balance sheet				
Change in policyholder amounts on deposit	**8**		37	
Impact of foreign exchange	**132**	**140**	(135)	(98)
Provision for future policy benefits				
Liabilities arising on new business	**993**		909	
Change in liabilities on in force business	**(1,055)**		(717)	
Change in assumptions	**(16)**	**(78)**	(75)	117
Balance, end of year		**$ 21,627**		$ 21,554

The changes in liabilities related to MetCan reflect liabilities transferred to other insurers. The transfer also resulted in a $208 charge to benefits paid. The net impact of the transfer on benefits paid and provided for was $89, which was fully offset by a charge to goodwill as described in Note 4.

Changes in assumptions can increase or decrease liabilities for future policy benefits. The most significant change in 2000 is an $18 decrease that is largely related to the control of unit cost expenses. The most significant change in 1999 was a $70 decrease that was related to the expense savings from the integration of the MetCan block of business. The impact of this change on income in 1999 was offset by the corresponding goodwill amortization.

The change in liabilities on in force business is mainly due to the decrease in guaranteed wealth management products.

10. Interest Rate, Measurement, Credit and Liquidity Risk

Interest Rate Risk

In the normal course of operations the Company is exposed to interest rate risk. This risk is present to the extent that the cash flows from the assets supporting the liabilities do not match the policy obligations in timing and amount.

The largest segment of assets at $10.2 billion ($10.7 billion in 1999) supports primarily the Canadian annuity liabilities and is the most sensitive to changes in interest rates. Mismatches between the asset and liability cash flows for this segment are monitored and controlled on a daily basis. Several different methods are used to measure the exposure of this segment to interest rate risk including duration, key rate sensitivity and value-at-risk (VAR) analysis. Each of these methods looks at mismatches between cash inflows and outflows, by time period, to determine the impact of changes in interest rates on the Company's net income if, in any particular time period, excess funds will need to be reinvested or financing is required to meet obligations. The Company's investment policy statement establishes maximum allowable risk exposures for all measures used.

At December 31, 2000, if there had been an immediate increase in interest rates across the entire yield curve of one percentage point, the net income of the Company would be decreased, and net policy liabilities would be increased, by $1 ($1 in 1999). Conversely, if there had been an immediate decrease in interest rates of one percentage point, the net income of the Company would be increased, and net policy liabilities would be decreased, by $1 ($2 in 1999).

At December 31, 2000, the VAR was $0 ($1 in 1999). The determination of VAR takes into consideration the individual sensitivities of key rates along the curve to changes in the market, the expected level of volatility at those points, and any correlation that may exist between the key rates when market movements occur. The consideration of all of these factors improves the accuracy of the measured impact by focusing on the effect of likely combinations of rate movements.

The timing and amount of expected future cash flows for the Canadian annuity business are detailed in the following cash flow gap table. The cash flows are based on the carrying value of the assets and liabilities at their maturity date. The size of the gaps by themselves is not an indicator of the extent of interest rate risk since the present value of the mismatched position has not been considered and the cash flows have been included in wide time bands. The VAR and the effect of a 1% parallel movement in the curve are much better indicators of the Company's exposure to interest rate risk. At all times the Company actively manages the mismatched position within defined limits for much narrower time bands.

Cash flow gap for the Canadian annuity business is as follows:

2000	Under 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years	Over 20 Years[1]
Assets					
Marketable bonds & short-term investments	$ 879	$ 1,926	$ 940	$ 2,614	$ 1,415
Residential mortgage loans	437	645	55	1	–
Non-residential mortgage loans	550	1,574	897	257	–
Corporate loans	537	1,171	707	502	135
Other investments[2]	74	552	165	203	(126)
Total assets	2,477	5,868	2,764	3,577	1,424
Total liabilities	2,288	5,938	2,623	3,167	1,763
Cash flow gap	$ 189	$ (70)	$ 141	$ 410	$ (339)
Gap as a % of total Canadian annuity assets	1.8	(0.7)	1.4	4.0	(3.3)

1999	Under 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years	Over 20 Years[1]
Assets					
Marketable bonds & short-term investments	$ 1,128	$ 1,436	$ 1,045	$ 2,369	$ 2,129
Residential mortgage loans	542	739	56	–	–
Non-residential mortgage loans	561	1,744	955	302	–
Corporate loans	691	1,383	783	544	137
Other investments[2]	(162)	148	226	197	(79)
Total assets	2,760	5,450	3,065	3,412	2,187
Total liabilities	2,625	5,785	2,706	3,375	2,296
Cash flow gap	$ 135	$ (335)	$ 359	$ 37	$ (109)
Gap as a % of total Canadian annuity assets	1.3	(3.1)	3.4	0.3	(1.0)

1 The cash flows beyond year 30 have been discounted to year 20 to reflect the impact of interest.

2 Cash flows for other investments include the cash flows related to off balance sheet derivative instruments.

The next largest segment of assets at $7.6 billion ($7.4 billion in 1999) supports primarily the Canadian life insurance liabilities. This segment is less sensitive to changes in interest rates since the dividend mechanism of the life insurance policies makes it possible for investment results to be flowed through to policyholders, which moderates the effect of gains and losses on the Company. For lapse supported business, the projected liability flows are for a very long period and cannot be fully matched with appropriate assets. In this instance, the Company may be exposed to falling interest rates, but a conservative interest rate assumption has been made in the actuarial liabilities.

Measurement Risk

The Company is exposed to measurement risk in the determination of liabilities for future policy benefits that require assumptions to be made about the timing and amount of future events. Assumptions include best estimates and a margin for adverse deviation to account for the risks and uncertainties involved in the valuation process. Note 2 addresses the significant events about which assumptions are made.

The Company evaluates its exposure to changes in the assumptions underlying the policy liabilities on an annual basis. The margin for adverse deviation in each assumption reflects the uncertainty in the best estimate and the probability that it will change.

The assumptions most susceptible to change are as follows:

a) Investment Return on New Assets

The section on interest rate risk above describes how the yield on assets affects the determination of policy liabilities, and how the impact of changes in yields is managed for minimum impact on the liabilities and, as a result, the net income of the Company.

b) Asset Defaults

Asset defaults reduce the investment income that is available to support policy obligations. Liabilities for future policy benefits include a margin of 3.3% (3.2% in 1999) and are amortized into income in accordance with the Company's accounting policies. This margin comprises a 1.7% (1.4% in 1999) margin for estimated asset defaults and a 1.6% (1.7% in 1999) margin for adverse deviation.

c) Disability

Disability assumptions are based on the number of claims and the length of time individuals are on disability. Disability experience can be very volatile and difficult to predict because economic conditions and social factors have a strong impact on experience. The volatility in experience is managed by stringent underwriting criteria and active management of disability cases.

The impact of changes in other actuarial assumptions in the near term is unlikely to be material. The Company's experience, over the last several years, has been consistent with the actuarial assumptions made.

Credit Risk

a) Concentration of Credit Risk

The following information represents the Company's concentration of credit risk in invested assets by the most appropriate indicator for each particular asset class.

Marketable bonds: At December 31, 2000, 99% of the bond portfolio was rated investment grade (BBB) or better (99% in 1999), with 95% rated "A", "AA" or "AAA" (95% in 1999). Government bonds represent 62% of the portfolio (61% in 1999).

Residential mortgage loans, non-residential mortgage loans and real estate: Given that a significant portion of the liabilities of the Company are in Canada, a substantial portion of its assets are invested in Canada, mainly in Ontario, as shown in the following table:

	2000				1999			
(in percentages)	**Ontario**	**Western Canada**	**Eastern Canada**	**U.S.**	Ontario	Western Canada	Eastern Canada	U.S.
Residential mortgage loans	**57**	**26**	**14**	**3**	58	25	14	3
Non-residential mortgage loans	**38**	**27**	**16**	**19**	39	28	18	15
Real estate	**72**	**22**	**5**	**1**	72	21	6	1

Corporate loans: The corporate loan portfolio is well diversified on an economic sector basis as shown in the following table:

(in percentages)	2000	1999
Finance & insurance	**20**	25
Real estate	**25**	22
Minerals & energy	**13**	13
Transportation & communication	**10**	11
Manufacturing	**7**	7
Other	**25**	22
Total	**100**	100

b) Credit Risk Related to Reinsurance Agreements

The Company uses reinsurance agreements to limit potential losses on individual policies or catastrophic events and for capital management purposes. These agreements, and the associated risk, are separate and distinct from the operations of the Company's reinsurance segment. The use of reinsurance creates credit risk and concentration of credit risk. Under a reinsurance agreement, the insurance risk is transferred, but the Company retains its obligation to policyholders as the primary insurer. Failure of the reinsurer to meet its obligations may result in losses to the Company. To minimize potential losses, the Company monitors the concentration of risk with each reinsurer and deals only with reinsurers holding an AAA credit rating.

Liabilities for future policy benefits are presented on the balance sheet net of reinsurance ceded of $513 as at December 31, 2000 ($265 in 1999).

c) Credit Exposure to a Single Issuer

Total exposure of the Company to any one corporate credit will not exceed $300. In addition to this broad limitation, exposure to any one corporate credit is also subject to further limits based on the extent to which the loan is collateralized and the strength of the borrower's credit rating.

Exposure to any corporate credit includes the book value of short-term instruments (excluding short-term instruments of Schedule 1 banks), bonds, corporate loans and leases, mortgages and preferred shares, the market value of common shares, as well as off balance sheet items such as derivative instruments. The Company's largest single loan exposure to a single company was $49 ($50 in 1999). The Company's largest total exposure to a single company or group of related companies was $246 ($258 in 1999).

Liquidity Risk

Effective liquidity management is fundamental to maintaining client confidence, protecting the Company's capital base and providing for profitable business expansion. The Company's revenue is broadly diversified because of the large number of agents comprising the exclusive sales force across Canada that sells retail insurance and annuity products to many individual clients, and the large number of brokers and consultants selling group products and *U.S.* individual products. On an ongoing basis, cash available for investment is relatively stable because of the large amount of periodic premium payments received by the Company and the large number of fixed term instruments continually maturing. The Treasury Unit manages the Company's liquidity position by:

- maintaining asset portfolios of liquid investments;
- monitoring and managing the level and timing of outstanding commitments compared to cash and short-term investments available on a daily basis;
- providing input to product design with the goal of minimizing unexpected liquidity demands; and
- maintaining access to external sources of liquidity such as commercial paper and lines of credit.

Liquidity must also be maintained to provide for life insurance policies that permit policyholders to surrender their policies for a guaranteed surrender value at any time. Annuities may be surrendered, prior to the end of the stated maturity date, for a market value adjusted amount determined at the Company's discretion.

The Treasury Unit reports to the Management Investment Committee on a weekly basis, and an update of the liquidity profile is part of the information provided in monitoring compliance with the Company's investment policy statement.

The Company's liquidity profile was as follows:

	2000	1999
Sources of liquidity (market values)		
Cash & short-term investments[1]	$ 2,701	$ 2,424
Marketable bonds	10,598	10,237
Marketable stocks	1,721	1,249
Unutilized commercial paper facility	401	515
Unutilized lines of credit	584	381
Total available sources of liquidity	$ 16,005	$ 14,806
Uses of liquidity		
Surrenderable insurance & annuity policies	$ 13,458	$ 13,576
Repurchase agreements	1,516	1,296
Total potential uses of liquidity	$ 14,974	$ 14,872

1 Short-term investments include treasury bills, commercial paper, bankers' acceptances and reverse bond repurchase agreements.

Potential cash surrenders of life insurance and annuity policies are monitored and provided for in cash flow management. The table represents the potential maximum sources and uses of liquidity at a point in time. Actual cash surrender and maturity experience have averaged approximately $1.6 billion annually over the five years ended December 31, 2000.

11. Reinsurance Agreements

The Company uses reinsurance agreements to limit potential losses on individual policies or catastrophic events and for capital management purposes.

The effect of reinsurance agreements on operations is summarized below:

	2000	1999
Premiums		
Gross	$ 3,715	$ 3,439
Ceded	185	192
Net	$ 3,530	$ 3,247

12. Deferred Net Capital Gains

Deferred net capital gains are amounts of unamortized net realized gains on loans and investments. The balance comprises the following:

	2000	1999
Marketable bonds, mortgage & corporate loans	$ 827	$ 888
Stocks	539	270
Real estate	23	25
Total	$ 1,389	$ 1,183

13. Other Liabilities

	2000	1999
Commercial paper	**$ 149**	$ 34
Bond repurchase agreements	**1,516**	1,296
Income & premium taxes payable	**159**	177
Other	**786**	688
Total	**$ 2,610**	$ 2,195

The Company issues commercial paper and enters into bond repurchase agreements for operational funding and liquidity purposes. Commercial paper maturities range from 2 to 78 days, averaging 13 days, and bearing interest rates averaging 5.86% at December 31, 2000 (5.17% in 1999). Bond repurchase agreements have maturities ranging from 2 to 89 days, averaging 25 days, and bearing interest rates averaging 5.74% at December 31, 2000 (4.96% in 1999). The funds are continuously rolled over to meet ongoing short-term cash requirements.

14. Subordinated Debt

Subordinated debt represents direct unsecured obligations of the Company that are subordinate to the Company's policyholders and other creditors. All subordinated debt issues are redeemable at the option of the Company, subject to approval by the Office of the Superintendent of Financial Institutions. The following obligations are included in subordinated debt as at December 31:

Issue	Maturity	Interest Rate	Terms	2000	1999
$250 Series 1 Subordinated Debentures	May 15, 2013	5.80%	After May 15, 2008, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1%. Redeemable in whole or in part at any time.	**$ 250**	$ 250
$150 Series 2 Subordinated Debentures	May 15, 2028	6.30%	Redeemable in whole or in part at any time.	**150**	150
$300 Series 3 Subordinated Debentures	October 12, 2015	6.65%	After October 12, 2010, interest is payable at an annual rate equal to the 90-day Bankers' Acceptance Rate plus 1%. Redeemable in whole or in part at any time prior to October 12, 2010. On or after October 12, 2010, redeemable in whole on interest payment date.	**300**	–
£125 Subordinated Guaranteed Bonds[1]	January 12, 2004	7.25%	Issued by Clarica (U.S.) and guaranteed by the Company. Redeemable in whole or in part any time after January 12, 1999.	**43**	270
Total				**$ 743**	$ 670

1 The Company has entered into a swap agreement to convert the guaranteed bonds into United States dollars for the full term of the bonds.

Total interest incurred on subordinated debt in 2000 was $39 ($44 in 1999).

15. Capital

a) Authorized and Issued Share Capital

	2000 Shares	2000 Amount	2000 Dividends per Share	1999 Shares	1999 Amount	1999 Dividends per Share
Common shares, *unlimited authorized*						
Balance, beginning of year	134.3	$ 884		–	$ –	
Issued to policyholders at demutualization	–	–		87.9	–	
Issued through initial public offering	–	–		46.4	884	
Balance, end of year	134.3	$ 884	$ 0.60	134.3	$ 884	$ 0.15
Non-voting shares, *unlimited authorized*						
Series 1 non-cumulative redeemable class A						
Balance, beginning of year	–	$ –		–	$ –	
Issued during the year	6.0	148		–	–	
Balance, end of year	6.0	$ 148	$ 1.25	–	$ –	$ –
Series 2 non-cumulative redeemable class A						
Balance	–	–		–	–	
Total		$ 1,032			$ 884	

Common shares: The Company is authorized to issue an unlimited number of common shares. Each common share is entitled to one vote at meetings of the shareholders of the Company.

Non-voting shares: The Company is authorized to issue shares that do not carry voting rights and that do not entitle the holders to participate in the residual value of the assets of the Company upon a liquidation or winding-up. The Company's by-law provides for the creation of seven classes of shares having three different priorities with respect to payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of the Company.

Each class consists of an unlimited number of non-voting shares without par value, issuable in series. The by-law authorizes the Board of Directors to fix, prior to the issuance of any shares, their other rights, privileges, restrictions and conditions subject to the provisions of the Company's by-laws and the *Insurance Companies Act* (Canada).

On March 23, 2000, the Company issued 6 million non-cumulative redeemable class A preferred shares, Series 1, at $25.00 per share for net proceeds of $148 million after deducting total issue expenses and underwriting fees of $2 million. The proceeds will enlarge and diversify the Company's Tier 1 capital base.

Details on the issued non-voting shares are as follows:

Issue	Dividends	Redemption	Conversion
Class A, Series 1	Quarterly non-cumulative dividends at a per share rate of $0.40625 to June 30, 2005, and afterwards at a per share rate of $25.00 times one quarter of the greater of (i) 95% of the Prime Rate and (ii) 6.25%.	Starting June 30, 2005, the Company may redeem for a cash payment of not more than $25.50 per share.	Every 5 years starting June 30, 2005, shareholders may convert into Class A, Series 2.
Class A, Series 2	Quarterly non-cumulative dividends at a per share rate of $25.00 times at least 100% of the Government of Canada Yield, the exact percentage to be set by the Board prior to the quarter.	Every 5 years starting July 1, 2010, the Company may redeem, in whole but not in part, for a cash payment of $25.00 per share.	Every 5 years starting July 1, 2010, shareholders may convert into Class A, Series 1.

Redemptions must be approved by the Superintendent of Financial Institutions Canada. At any time, the Company may purchase class *A* shares for cancellation at prevailing market prices. The Class A, Series 1, dividend on June 30, 2000, was payable at a per share rate of $0.44196 due to the issue date of March 23, 2000.

b) Capital Requirements

The Company's equity capital, which consists of shareholders' equity and participating policyholders' interest, is available to meet all policy obligations. The Company and its subsidiaries are subject to various capital requirements in their respective jurisdictions. Should these requirements not be met, the Company's ability to declare dividends could be constrained.

In Canada, OSFI has prescribed a Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio of 120% as the minimum capital requirement. The ratio represents the Company's available capital as a percentage of its required capital. Available capital only includes capital that is permanent in nature or has a sufficiently long term to maturity. Required capital is calculated using a prescribed formula, which applies risk factors to various categories of the Company's assets and liabilities and summarizes the results. The calculation takes into consideration the nature of the Company's policyholder obligations and the investments held to provide for their ultimate discharge.

As at December 31, 2000, the Company's estimated MCCSR ratio of 201% (186% in 1999), is well above the prescribed minimum of 120%. The various capital requirements for the Company's operations in foreign jurisdictions were exceeded in all cases.

c) Stock Incentive Plans

Management Plans

Under the Canadian and U.S. management stock incentive plans (the "Management Plans"), participants are eligible to receive options on common shares. The number of options granted, the exercise price, the expiry date and any other terms, including terms relating to the vesting of options, are determined by the Board. However, the exercise price will not be less than the closing market price on the day prior to the grant date, options will generally expire 10 years after grant date, and options will be exercisable as to 25% on and after the first, second, third and fourth anniversaries of the grant date.

The maximum number of shares that may be issued under the Management Plans is 6% of the outstanding common shares. In addition, the aggregate number of common shares reserved for issuance to any one individual shall not exceed 5% of the outstanding common shares at the time of granting of the options.

A summary of the activity in the Management Plans for the year is as follows:

2000	Number of Common Share Options (in millions)	Weighted Average Exercise Price
Balance, beginning of year	–	$ –
Conversion of Long-term Incentive Plan units	0.8	28.83
Granted	0.5	28.83
Exercised	–	–
Forfeited	0.1	28.83
Balance, end of year	1.2	$ 28.83
Exercisable, end of year	–	$ –

Outstanding options have an exercise price of $28.83 and they expire on July 21, 2010.

On July 21, 2000, the existing units held by senior officers of the Company or its subsidiaries under the predecessor Long-term Incentive Plans were converted to options under the Management Plans in accordance with a formula determined by the Board. Also, on termination of the Long-term Incentive Plans, the Company paid $1.3 to retirees and former employees representing the cash value of vested units held by them.

Employee/Agent Share Ownership Programs

Under the Employee/Agent Share Ownership Programs, the Company matches 50% of employee/agent contributions. Employees/agents may choose to make eligible contributions up to 5% of their target annual compensation to a maximum of $3 thousand per year. Shares are purchased on the open market. The Employee Program began in August 2000 and the Agent Program began in January 2001.

d) Dividend Restrictions

Dividends on common shares are declared at the discretion of the Board. The Company is prohibited under the *Insurance Companies Act* (Canada) ("the Act") from paying or declaring a dividend if there are reasonable grounds for believing that the Company is, or the payment would cause the Company to be, in contravention of any regulation made under the Act regarding the maintenance by life companies of adequate capital and adequate and appropriate forms of liquidity, or any direction to the Company made by the Superintendent of Financial Institutions Canada under section 515(3) of the Act. No such direction to the Company has been made to date.

e) Appropriation of Capital

As a result of the conversion to a stock life company, an appropriation of $10 was made from the shareholder account to the participating account. The appropriation is seed capital for the participating account and has been appropriated to support new participating business. It is expected that this seed capital will be repaid over time, with interest, from the surplus in the participating account.

16. Earnings per Common Share

	2000	1999 Subsequent to Demutualization	1999 Prior to Demutualization	1999 Total Adjusted Basic Earnings
Income before goodwill charges attributable to common shareholders	$ 423	$ 135	$ 162	$ 297
Goodwill charges attributable to common shareholders	90	10	13	23
Net income attributable to common shareholders	$ 333	$ 125	$ 149	$ 274
Earnings per common share before goodwill charges	$ 3.15	$ 1.01		
Earnings per common share	$ 2.48	$ 0.93		
Fully diluted earnings per common share	$ 2.48	$ 0.93		
Adjusted basic earnings per common share before goodwill charges				$ 2.21
Adjusted basic earnings per common share				$ 2.04

Earnings per common share is calculated for operations subsequent to demutualization (July 21, 1999) using net income attributable to common shareholders and the monthly weighted average of the number of common shares outstanding for the period of 134.3 million.

Adjusted basic earnings per common share is calculated as if the conversion to a public company occurred January 1, 1999. The effect on earnings is an increase of $149 ($162 before goodwill) representing the amount of pre-demutualization earnings that would have been attributable to shareholders. The pre-demutualization earnings attributable to common shareholders were calculated using the same basis of allocation used for post-conversion earnings. For 1999, the net impact of anticipated shareholder expenses and investment income to be earned on the net additional capital from the Initial Public Offering (IPO) would be immaterial.

17. Investment Income

2000	Investment Income	Amortization of Realized & Unrealized Gains/ (Losses)	Direct Write-offs & Net Charge to Loan Provision[1]	Total
Marketable bonds	$ 697	$ 111	$ (1)	$ 807
Residential mortgage loans	237	2	(1)	238
Non-residential mortgage loans	359	–	(6)	353
Corporate loans	332	8	(10)	330
Stocks	50	100	–	150
Real estate[2]	30	19	(1)	48
Interest in real estate joint ventures[2]	20	–	–	20
Other	144	–	(11)	133
Total	$ 1,869	$ 240	$ (30)	$ 2,079

1 Direct write-offs and net charges to loan provision include recoveries of $10 ($8 in 1999), none of which relate to restructured loans.

2 Investment income from real estate and interest in real estate joint ventures is presented net of operating expenses of $31 ($35 in 1999) and $43 ($42 in 1999), respectively.

1999	Investment Income	Amortization of Realized & Unrealized Gains/ (Losses)	Direct Write-offs & Net Charge to Loan Provision[1]	Total
Marketable bonds	$ 679	$ 124	$ –	$ 803
Residential mortgage loans	264	3	2	269
Non-residential mortgage loans	334	–	(6)	328
Corporate loans	349	5	(3)	351
Stocks	50	109	–	159
Real estate[2]	29	15	–	44
Interest in real estate joint ventures[2]	20	–	–	20
Other	116	–	1	117
Total	$ 1,841	$ 256	$ (6)	$ 2,091

1 Direct write-offs and net charges to loan provision include recoveries of $10 ($8 in 1999), none of which relate to restructured loans.

2 Investment income from real estate and interest in real estate joint ventures is presented net of operating expenses of $31 ($35 in 1999) and $43 ($42 in 1999), respectively.

18. Income Taxes

The provision for income taxes in the Consolidated Statement of Income is based on transactions recorded in the consolidated financial statements regardless of when they are recognized for income tax purposes.

In addition, income tax expense or benefit is recorded directly in retained earnings for those items recorded in shareholders' equity.

	2000	1999
Provision for income taxes reported in the Consolidated Statement of Income	**$ 249**	$ 205
Provision reported in shareholders' equity		
Income tax expense (benefit) related to demutualization expenses	**–**	(38)
Income tax expense (benefit) related to preferred share expenses	**(2)**	–
Income tax expense (benefit) related to foreign currency translation	**(5)**	5
Total income taxes	**$ 242**	$ 172
Components of total income taxes		
Canadian income tax expense (benefit)		
Current	**$ 120**	$ 154
Future	**89**	(1)
	209	153
Foreign income tax expense (benefit)		
Current	**22**	8
Future	**11**	11
	33	19
Total income taxes	**$ 242**	$ 172

The provision for income taxes included in the Consolidated Statement of Income is different than that obtained by applying statutory tax rates to income taxes for the following reasons:

	2000		1999	
	$	%	$	%
Provision for income taxes at Canadian statutory rates	250	42.5	204	43.0
Increase (decrease) resulting from:				
Foreign operations subject to different tax rates	(8)	(1.4)	(5)	(1.1)
Non-taxable investment income	(36)	(6.1)	(24)	(5.1)
Non-deductible amortization of goodwill	43	7.3	25	5.3
Capital taxes	11	1.9	10	2.1
Other	(11)	(2.0)	(5)	(1.1)
Income taxes and effective rate	249	42.2	205	43.1

The following table presents the net future tax asset, which is reported in other assets, and the principal components to which it relates:

	2000			1999		
	Canada	United States	Total	Canada	United States	Total
Policy liabilities	$ (123)	$ (92)	$ (215)	$ (96)	$ (2)	$ (98)
Investments	103	20	123	154	32	186
Other	48	69	117	64	2	66
Net future income tax asset	$ 28	$ (3)	$ 25	$ 122	$ 32	$ 154

The Company is subject to Canadian taxation on the income earned in our foreign branch and foreign subsidiaries only when repatriated to Canada. Upon repatriation of these earnings, the Company will be required to pay tax on certain of these earnings. As repatriation of such earnings is not currently planned, the future tax liability has not been recognized.

19. Employee Future Benefits

The Company has a number of pension plans and other benefit plans that cover essentially all of its employees and some of its agents. The pension plans are both contributory and non-contributory, and benefits are provided on defined benefit and defined contribution bases. The benefits provided reflect compensation history, length of service and level of contributions. Pension assets consist principally of Canadian equities and government and corporate bonds. The most recent actuarial valuation was prepared effective January 1, 2001.

Information about the Company's defined benefit plans, in aggregate, is as follows:

	2000		1999	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Accrued benefit obligation				
Balance, beginning of year	$ 383	$ 78	$ 380	$ 73
Current service cost	19	3	19	2
Interest cost	25	5	23	4
Benefits paid	(20)	(2)	(26)	(1)
Actuarial losses (gains)	15	3	(13)	–
Balance, end of year	422	87	383	78
Plan assets				
Fair value, beginning of year	460	–	423	–
Actual return on plan assets	28	–	58	–
Employer contributions	12	–	2	–
Benefits paid	(20)	–	(23)	–
Foreign exchange rate changes	1	–	–	–
Fair value, end of year	481	–	460	–
Funded status – plan surplus (deficit)	59	(87)	77	(78)
Unamortized net actuarial loss (gain)	(84)	12	(97)	9
Accrued benefit asset (liability)	(25)	(75)	(20)	(69)
Valuation allowance	(38)	–	(37)	–
Accrued benefit asset (liability), net of valuation allowance	$ (63)	$ (75)	$ (57)	$ (69)

The non-pension benefit plans are unfunded. There are no accrued benefit obligation and fair value of plan assets of defined benefit pension plans with accrued benefit obligations in excess of plan assets. Pension plan assets do not include common shares of the Company.

The following is a summary of the weighted average significant actuarial assumptions used in measuring the Company's accrued benefit obligations:

	2000		1999	
(in percentages)	**Pension Benefit Plans**	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Discount rate	6.5	6.5	6.5	6.5
Expected long-term rate of return on plan assets	6.5	n/a	6.5	n/a
Rate of compensation increase	3.6	n/a	3.6	n/a

In addition, in determining the expected cost of health care benefit plans, it is assumed that the health care costs will increase by 7.0% each year to 2004; then the rate of increase declines gradually to 5.0% in 2025 and remains level thereafter. In determining the expected cost of dental benefit plans, it is assumed that the dental costs will increase by 5.5% to 2004; then the rate of increase declines gradually to 4.5% in 2025 and remains level thereafter.

The Company's net benefit plan expense is as follows:

	2000		1999	
	Pension Benefit Plans	**Other Benefit Plans**	Pension Benefit Plans	Other Benefit Plans
Current service cost	$ 19	$ 3	$ 19	$ 2
Interest cost	25	5	23	4
Expected return on plan assets	(29)	–	(26)	–
Amortization of net actuarial gain (loss)	(4)	–	(9)	1
Valuation allowance provided against accrued benefit asset	3	–	6	–
Net benefit plan expense	$ 14	$ 8	$ 13	$ 7

20. Derivative Instruments

The Company's derivative instruments include options, futures, forward contracts, swaps and equity derivatives. The market and credit risks associated with these instruments, as well as the operating risks, are similar to those relating to other types of financial instruments. The Company manages overall exposures on a comprehensive basis through prudent risk limits, hedging strategies and timely reporting.

The Company enters into derivative contracts for asset liability management (ALM) purposes. ALM involves managing interest and foreign currency exposures from on balance sheet positions.

Notional Principal Amounts

The following table summarizes the total notional principal amounts classed as either over-the-counter or exchange-traded contracts:

	2000	1999
Over-the-counter (OTC) contracts		
Interest rate contracts		
Swap contracts	$ 2,139	$ 2,084
Options purchased	328	271
Options written	–	85
	2,467	2,440
Foreign exchange contracts		
Forward contracts	1,998	1,197
Swap contracts	797	956
Options purchased	–	59
Options written	39	–
	2,834	2,212
Other contracts	101	–
	5,402	4,652
Exchange-traded contracts		
Other contracts	213	44
Total	$ 5,615	$ 4,696

The notional principal amounts by remaining term to maturity are as follows:

	Term to Maturity				2000	1999
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Notional Amount	Total Notional Amount
Interest rate contracts	$ 643	$ 1,131	$ 473	$ 220	$ 2,467	$ 2,440
Foreign exchange contracts	2,038	262	294	240	2,834	2,212
Other derivative contracts	300	14	–	–	314	44
Total	$ 2,981	$ 1,407	$ 767	$ 460	$ 5,615	$ 4,696

As at December 31, 2000, the notional principal amounts by counterparty type are as follows:

	Interest Rate Contracts	Foreign Exchange Contracts	Other Derivative Contracts	Total
Financial institutions	$ 2,467	$ 2,834	$ 101	$ 5,402
Other	–	–	213	213
Total	$ 2,467	$ 2,834	$ 314	$ 5,615

Credit Exposure

The following provides a summary of the Company's derivative portfolio and related credit exposure:

	2000				1999			
	Notional Principal	Current Credit Risk	Credit Equivalent Amount	Risk Weighted Balance	Notional Principal	Current Credit Risk	Credit Equivalent Amount	Risk Weighted Balance
Interest rate contracts	$ 2,467	$ 104	$ 120	$ 24	$ 2,440	$ 82	$ 101	$ 20
Foreign exchange contracts	2,834	55	128	26	2,212	89	171	35
Other derivative contracts	314	3	12	5	44	5	8	4
Total	$ 5,615	$ 162	$ 260	$ 55	$ 4,696	$ 176	$ 280	$ 59

The Company uses a variety of credit risk reduction techniques including collateral margins, recouponing arrangements and termination and closeout agreements. The credit exposure amounts do not reflect the impact of collateral received by the Company from counterparties or the impact of master netting agreements.

Fair Value of Derivative Instruments

When available, quoted market prices are used to determine the fair value of derivative instruments. In all other cases, fair values are based on present value estimates of the future cash flows. These fair values can change on a daily basis if there is any change in the rates or indices on which the exchange of cash flows are based.

The following table provides the estimated fair values of the Company's derivative instrument portfolio as at December 31:

	2000		1999	
	Positive	Negative	Positive	Negative
Interest rate contracts	$ 104	$ 22	$ 82	$ 16
Foreign exchange contracts	55	56	89	18
Other derivative contracts	3	3	5	–
Total	$ 162	$ 81	$ 176	$ 34

21. Commitments and Contingencies

a) Purchase and Loan Commitments

Outstanding commitments for future mortgage and corporate loans are $639 at December 31, 2000 ($494 in 1999). The commitments for mortgage and corporate loans run for periods no longer than 75 days.

b) Operating Lease Commitments

The Company and its subsidiaries have contractual obligations in respect of rental payments on leased premises and equipment. As at December 31, 2000, minimum payments under these leases are in amounts from $18 to $23, for a total of $95 over the next five years.

c) Contingencies

Three potential class actions have been commenced against the Company relating to the availability of policy dividends to pay future premiums. Two lawsuits have been brought in Ontario and the other is in Quebec. In October, 2000, an Ontario court ruled that it was not appropriate for the Ontario lawsuits to be certified as class actions. One of the two Ontario plaintiffs has decided not to appeal this ruling. The other plaintiff has filed an appeal asking that the order denying class certification be set aside. The potential class action brought in Quebec has not yet proceeded. As the proceedings are in their early stages, the Company is not able to make an assessment of the probable outcome.

In addition, the Company and its subsidiaries are involved on an ongoing basis in various legal actions arising in the normal course of business. In management's opinion, the resolution of these actions will not have a material adverse effect on the financial condition of the companies.

d) Guarantees

As at December 31, 2000, the Company had guarantees outstanding of $68 ($88 in 1999).

22. Segmented Information

The Company operates a variety of business segments, each offering different products and services to meet customers' needs.

The par retail insurance segment provides individual insurance products on a participating basis. Products include life insurance, and supplementary insurance benefits and riders.

The non-par retail insurance segment provides individual insurance products on a non-participating basis. Products include life insurance, personal health insurance, critical illness health insurance, long-term care insurance, and supplementary insurance benefits and riders.

The group insurance segment provides group life, dental, prescription drug, long- and short-term disability, accidental death and dismemberment, and supplemental health care insurance.

The wealth management segment provides wealth accumulation and retirement products to retail and group clients on both a fixed rate and market basis. Products include guaranteed and payout annuities, guaranteed investment certificates (GICs), mutual funds and segregated funds.

The United States insurance & savings segment includes the distribution of a diversified portfolio of universal life insurance products primarily for protection and accumulation of funds for retirement needs.

The reinsurance segment includes the business of life, accident and health reinsurance, specifically life retrocession and special risk reinsurance.

The surplus segment includes the surplus portfolio for Canada and the U.S., as well as corporate expenses. Previously, only Canadian surplus was included in the surplus segment and U.S. surplus was reported as part of the U.S. businesses. Comparative figures have been reclassified to conform to the presentation adopted in the current period.

	Canada				United States			
2000	Retail Insurance Par	Retail Insurance Non-par	Wealth Management	Group Insurance	Insurance & Savings	Reinsurance	Surplus	Total
Revenue								
Premiums	$ 941	$ 286	$ 652	$ 870	$ 398	$ 383	$ –	$ 3,530
Investment income	514	70	898	149	158	31	259	2,079
Fees & other income	3	3	196	37	–	1	2	242
Total revenue	1,458	359	1,746	1,056	556	415	261	5,851
Benefits & expenses	1,349	223	1,576	999	533	371	103	5,154
Income taxes	47	45	62	24	7	15	49	249
	1,396	268	1,638	1,023	540	386	152	5,403
Net income before goodwill charges	62	91	108	33	16	29	109	448
Goodwill charges, net of tax	18	59	22	7	–	–	2	108
Net income before transfers	44	32	86	26	16	29	107	340
Par transfer to shareholders	(44)	44	–	–	–	–	–	–
Net income	$ –	$ 76	$ 86	$ 26	$ 16	$ 29	$ 107	$ 340
Summary of net income								
Undistributed participating policyholders' income	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Dividends on preferred shares	–	–	–	–	–	–	7	7
Net income attributable to shareholders	–	76	86	26	16	29	100	333
Net income	$ –	$ 76	$ 86	$ 26	$ 16	$ 29	$ 107	$ 340
Amortization of realized & unrealized gains	$ 84	$ 5	$ 57	$ 17	$ 4	$ –	$ 73	$ 240

1999	Canada Retail Insurance Par	Canada Retail Insurance Non-par	Canada Wealth Management	Canada Group Insurance	United States Insurance & Savings	United States Reinsurance	Surplus	Total
Revenue								
Premiums	$ 943	$ 246	$ 691	$ 872	$ 355	$ 140	$ –	$ 3,247
Investment income	502	64	954	145	159	10	257	2,091
Fees & other income	5	2	165	31	6	–	4	213
Total revenue	1,450	312	1,810	1,048	520	150	261	5,551
Benefits & expenses	1,322	259	1,671	1,017	488	137	123	5,017
Income taxes	55	23	52	12	8	4	51	205
	1,377	282	1,723	1,029	496	141	174	5,222
Net income before goodwill charges	73	30	87	19	24	9	87	329
Goodwill charges, net of tax	36	6	11	4	–	–	2	59
Net income before transfers	37	24	76	15	24	9	85	270
Par transfer to shareholders	(19)	19	–	–	–	–	–	–
Net income	$ 18	$ 43	$ 76	$ 15	$ 24	$ 9	$ 85	$ 270
Summary of net income								
Net income prior to demutualization	$ 22	$ 13	$ 42	$ 7	$ 13	$ 3	$ 49	$ 149
Net income subsequent to demutualization:								
Undistributed participating policyholders' income	(4)	–	–	–	–	–	–	(4)
Net income attributable to common shareholders	–	30	34	8	11	6	36	125
Net income	$ 18	$ 43	$ 76	$ 15	$ 24	$ 9	$ 85	$ 270
Amortization of realized & unrealized gains	$ 91	$ 4	$ 61	$ 17	$ 6	$ –	$ 77	$ 256

23. Subsequent Event

On December 18, 2000, the Company entered into an agreement to acquire the Canadian Group Retirement Services business of the Royal Trust Company and Royal Trust Corporation of Canada, wholly-owned subsidiaries of Royal Bank of Canada. The cash purchase price is $48.9 of which $45.4 will be recorded as goodwill and amortized over 15 years. The transaction was completed on January 31, 2001 and the Company expects the acquisition to be fully integrated into Clarica's operations by the end of 2001.

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Chair, Canadian Hotel
Income Properties

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2 **Doug Brooks**

3 **Charlie Grover**

4 **Brian Gill**

5 **Michael Stramaglia**

6 **Mary Duncan**

7 **Barry Triller**

8 **Hubert Saint-Onge**

9 **David Williamson**

10 **Cindy De Longhi**

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MBA
Chairman of the Board

Robert M. Astley
Hon. B.Sc., FSA, FCIA
President and
Chief Executive Officer
Clarica Life Insurance
Company and Clarica
Trust Company

Corporate Unit

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Chief Financial Officer

Douglas W. Brooks
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Chief Actuary

Cindy De Longhi
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Corporate Finance

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General Counsel and
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Chief Actuary

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CPA
Vice-President
Finance

Melody Jensen
BA, JD
Vice-President
Marketing Services

Guy Montag
BA, JD
Vice-President
General Counsel and
Secretary

Glossary of Terms

Administrative Services Only (ASO) Contracts
Group benefit contracts administered by the Company on behalf of the client. The Company earns fees for its administrative services, but the client retains all insurable risks and is responsible for paying all claims.

Annuity
A contract providing income payments at regular intervals, usually monthly, for a specified period of time.

Cash Surrender Value
The amount of cash available from a policy when the owner voluntarily ends the policy before it becomes payable either upon death or at maturity.

Demutualization
The process of change in corporate structure from a mutual company owned by its policyholders to a public company owned by its shareholders.

Derivative Contracts
Contracts that derive their value from underlying assets, interest or foreign currency rates or other indices. Derivative contracts are negotiated over-the-counter or traded on a regulated exchange.

Embedded Value
An estimate of the economic worth of a company, excluding any value attributable to future new business.

Experience Dividends
Amounts distributed to policyholders when the Company's actual experience with a class of policies is better than the results previously assumed in establishing its premiums and other guaranteed values. The amounts distributed are based on the claims experience, expenses and investment performance of the class of policies.

Goodwill
The value of intangible properties, such as customer lists or brand names, which contribute to the earning capacity of a company. Under generally accepted accounting principles, goodwill represents the excess of the purchase price over the fair value of the net assets acquired, and is amortized into income over its estimated useful life.

Group Insurance
A single insurance policy held by one party but covering a number of people, such as a plan a company buys for its employees.

Impaired Investments
Non-insured investments more than 90 days in arrears, insured investments more than 365 days in arrears, and investments less than 90 days in arrears but for which management does not have reasonable assurance that the full contractual amount of the loan (principal and interest) will be collected.

Insurance in Force
A measure of the amount of an insurance company's business at a point in time. Annuities are measured by the total liabilities supporting the business. Retail and group life insurance is measured by the total insurance coverage in effect. Group health insurance is measured by the total of annual premiums for direct business and the annual premium equivalents for administrative services only business.

Liabilities for Future Policy Benefits
An actuarial estimate of the current assets, plus future premiums and investment income, required by the Company to pay all future policyholder benefits and related expenses.

Minimum Continuing Capital and Surplus Requirement (MCCSR)
A formula prescribed by the Office of the Superintendent of Financial Institutions to determine the adequacy of an insurance company's capital.

Morbidity Rate
The likelihood a person of a given age will suffer an illness or disability. The premium a person pays for health insurance is based in part on a morbidity rate.

Mortality Rate
The frequency with which death occurs among a defined group of people. The premium a person pays for life insurance is based in part on a mortality rate.

New Annualized Premium
A measure of sales, equal to the full first-year premium on all sales made during the year.

Non-Participating Policy
An insurance policy or annuity that is not eligible for experience dividends.

Office of the Superintendent of Financial Institutions (OSFI)
The federal agency responsible for regulating and supervising banks, insurance companies and other financial services companies.

Participating Policy
An insurance policy or annuity that is eligible for experience dividends. A participating policy also gives the contract holder certain voting rights.

Permanent Insurance
Life insurance which remains in effect for the life of the insured or for a specified time period, as long as premiums are paid. These types of policies accumulate cash surrender values.

Persistency
A measure of the length of time a policy or block of policies remains in force.

Policy Loan
An advance made against the cash surrender value of a policy. If the amount is not repaid prior to maturity of the policy, the amount of the advance plus accrued interest is deducted from the benefit.

Reinsurance
The passing on of a portion of the risk accepted by an insurance company to another insurance company.

Repurchase Agreement
A short-term financing agreement in which a security is sold, and the seller commits to repurchase the security at a specified price and time.

Restructured Loans
Loans for which the terms have been modified because of the weakened financial condition of the borrower.

Retail Insurance
An insurance policy covering an individual or a family, as distinct from group insurance.

Retail Market-Based Funds
Mutual funds and segregated funds sold to individual customers by Clarica's retail sales force. These investment funds are separate and distinct from the other assets of the Company.

Retrocession
The passing on of a portion of the risk accepted by a reinsurer to another reinsurer.

Return on Equity (ROE)
A percentage that indicates how much a company has earned on the funds invested by shareholders. The percentage is calculated by dividing net income attributable to shareholders by average shareholders' equity.

Reverse Repurchase Agreement
A short-term financing agreement in which a security is purchased, and the buyer commits to resell the security to the original seller at a specified price and time.

Segregated Fund
An investment fund established by a life insurance company; similar in nature to a mutual fund. Segregated fund assets are separate and distinct from the other assets of the company.

Term Life Insurance
A life insurance policy which is in effect for a limited time period. If the insured person dies within that period, the beneficiary receives the death benefit. If the insured person does not die during that period, the policy ends and no death benefit is paid. Typically, term life insurance policies do not include cash surrender values.

Third Party Funds
Mutual funds which are managed by external fund companies but offered for sale through Clarica.

Universal Life Insurance
A type of life insurance in which the premiums are flexible, the amount of coverage is adjustable, an investment component is available, and the insurance company's cost of insurance and other charges are disclosed to the contract owner.

Corporate Structure

Shareholder and Corporate Information

Corporate Office
Clarica Life Insurance Company
227 King Street South
Waterloo, Ontario
Canada N2J 4C5

Web site
www.clarica.com

Toronto Stock Exchange Information

Stock	Ticker Symbol
Common shares	CLI
Preferred shares, Series 1	CLI.PR.A

Common Share Information
(as at December 31, 2000)
Share price: $41.95
Shares outstanding: 134.3 million
Market capitalization: $5.6 billion

For Shareholder Administration
For change of address, dividend information, estate transfer information, share certificates or other shareholder administrative issues, shareholders are requested to contact CIBC Mellon Trust Company directly.

By phone toll-free:
CIBC Mellon Trust Company
1-888-259-3888 (English)
1-888-265-8339 (French)
(Monday–Friday 8:30 a.m.–6:00 p.m. EST)

By fax:
1-800-349-4996

By e-mail:
Inquiries@CIBCMellon.com

By mail:
Clarica Shareholder Services
CIBC Mellon Trust Company
P.O. Box 7010, Adelaide St. Postal Station
Toronto, Ontario, Canada M5C 2W9

For Other Investor Information
By phone toll-free:
Clarica
1-877-790-0295

By e-mail:
Investor.Relations@clarica.com

Investor, Broker and Security Analyst Contact
For investors, brokers and security analysts requiring financial information, please contact:
Vivian Zochowski
Vice-President, Investor Relations
1-519-888-2733
1-877-790-0295 (toll-free)
Vivian.Zochowski@clarica.com

Policyholder Information

Summary Participating Policyholder Dividend Statement

The Board of Directors has adopted a policyholder dividend policy to guide the declaration and payment of dividends on participating policies. The policy was reviewed and revised in conjunction with the Company's demutualization in 1999. The goal of the review was to ensure continuity of practice with respect to policyholder dividends after demutualization.

Each participating policy contains a clause describing the right to share in the dividend distribution of the Company. The Board determines annually the total amount to be distributed and how that amount is shared among participating policyholders.

The amount to be distributed is based on the annual experience gain achieved on participating policies, taking account of claims experience, expenses and investment gains for each type of policy.

For Policyholder Administration
For change of address, statement requests, estate transfer information and other policyholder administrative issues, policyholders are requested to contact:

By mail:
Customer Service Centre
Clarica Life Insurance Company
227 King Street South
P.O. Box 1601, STN Waterloo
Waterloo, Ontario, Canada N2J 4C5

By phone toll-free:
1-888-864-5463 (English)
1-888-456-2843 (French)
(Monday–Friday 7:00 a.m.–8:00 p.m. EST)

Web site:
Canada: www.clarica.com
United States: www.clarica-us.com

Our Guiding Principles

Mission	What our company is in business to do	Help our customers achieve financial security, and in doing so, create maximum value for our shareholders.
Vision	What we strive for in the future	To be the clear first choice of customers, shareholders, members and communities.
Values	What guides our actions	We will make choices guided by our values: stewardship, partnership and innovation. We will make these choices live through our actions in all we do.
Brand	What makes us different	We will live our brand promise – *clarity through dialogue* – • With each other. • In our customer relationships. • As we create value for shareholders. • Within the communities where we live and work. Our brand reflects what makes us unique.
Commitments	What we live by as it relates to our stakeholders	**Commitment to Customers** • Provide clarity of choice to customers through listening, understanding and dialogue. • Meet their needs by providing outstanding advice and solutions. • Constantly develop innovative marketing solutions. • Earn their trust, confidence and loyalty every day by acting with integrity and the highest ethics. **Commitment to Shareholders** • Continually create increased value in shareholders' investments. • Generate growing and predictable earnings. • Innovate in ways that will generate value and profit. • Lead the industry in financial disclosure. **Commitment to Members** • Provide opportunities for developing their capabilities through continuous learning. • Compensate competitively and reward both effort and results. • Make it possible to participate directly in Clarica's success through ownership. • Foster an environment that fulfills our values through open dialogue, collaboration, teamwork and trust. **Commitment to Communities** • Contribute to the quality of life in communities where we live and work. • Be a valued neighbour through good corporate citizenship practices. • Support volunteerism and help members participate in community life. • Reflect the diversity of the communities we serve.

Clarica's Contribution

As part of Clarica's Contribution, our Community Resource Centre leases 10 houses rent-free to not-for-profit organizations near our head office in Waterloo.

Clarica's Contribution is the name of a new corporate citizenship program launched in October 2000. As a founding member of the Imagine Caring Company program, we donate one per cent of pre-tax domestic profits to charity. We designed Clarica's Contribution to build on our heritage of giving to enhance the quality of life in the communities where we live and work. Clarica's Contribution also extends the brand promise of clarity through dialogue to our philanthropy and volunteer activities.

A Participatory Process

In developing Clarica's Contribution, we looked for areas of community need where the interests of our business, our staff and agents and our communities all meet. We used research to determine where our own people see the needs in their communities, where they contribute money and donate their time. Outside of the company, we conducted research on the specific needs of Clarica's communities and we consulted national and international research on community needs.

Clearly Focused on Making a Difference

Five key areas emerged for the focus of Clarica's Contribution:

- Supporting United Way campaigns in communities where Clarica members live and work
- Promoting the best possible future for children
- Supporting effective organ donation programs in hospitals
- Enhancing the skills of our future workforce through education
- Enhancing staff and agent gifts of time and money to a wide range of registered charities through our Matching Gifts Program.

Clear Accountability

We commit to making Clarica's Contribution accountable, with clear guidelines, a clear decision-making process, and clear measurement and reporting. Charities tell us that this information, including the Clarica's Contribution Checklist of information required in each application, helps them make the best use of their limited time and resources.

Clear Commitment to Our People

We're interested in making our communities better places in which to live and work. Our commitment to match all United Way donations from our staff and agents, dollar for dollar, and donations to other charities up to $500 per member, is one that goes far beyond writing cheques. It's a commitment to recognize the importance of their efforts in the community, and by supporting them, enhance the time, energy and money they contribute.

With clarity and accountability, Clarica's Contribution is generating results for programs we support. With each program, we build new partnerships and bring people together to make a difference – partners helping one another to succeed.

We've summarized some of the programs and partnerships in a report on *Clarica's Contribution 2000, A Values-Added Approach*. To receive your copy, please contact us in one of these ways:

By mail: Corporate Communications, c/o Clarica,
227 King Street South,
Waterloo, Ontario N2J 4C5

By fax: 519-888-2179
By e-mail: corpcomm@clarica.com
By phone toll-free: 1-800-248-0779

CLARICA™